2014 ANNUAL REPORT

Hawaii Housing Finance and Development Corporation

HHFDC
Hawaii Housing Finance & Development Corporation

The Hawaii Housing Finance and Development Corporation is administratively attached to the Department of Business, Economic Development and Tourism and is the primary agency charged with overseeing affordable housing finance and development in Hawaii by working with the State's residents, housing developers, and financiers.

The mission of the Hawaii Housing Finance and Development Corporation is to increase and preserve the supply of workforce and affordable housing statewide by providing leadership, tools, and resources to facilitate housing development.

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THE HONORABLE DAVID Y. IGE, GOVERNOR, STATE OF HAWAII

Dear Governor Ige,

In Fiscal Year 2014, the HHFDC added 940 workforce/affordable housing units while managing assets in excess of $1 billion. Since its creation in 2006, the HHFDC has facilitated the development and preservation of 6,428 affordable and workforce housing units statewide and currently has a production plan in place to add 4,921 units over the next five years.

Our finance and development programs are designed to help facilitate public-private collaborations to accomplish our goals.

MORE MULTI-USE PROJECTS
Develop multi-use projects that include affordable housing on vacant and underutilized land owned by the state as well as county agencies and the private sector.

AFFORDABLE HOUSING ASSISTANCE FOR THE COUNTIES
Assist the counties with the implementation of affordable housing projects and programs.

TRANSIT-ORIENTED DEVELOPMENT
The State of Hawaii can play a key role in Oahu's future by actively seeking opportunities to responsibly participate in transit-oriented development along the Honolulu Rapid Transit Rail Line, public transportation and employment centers.

HOMEBUYERS ASSISTANCE
Assist up to 500 homebuyers annually with Mortgage Credit Certificates.

We take seriously our responsibility to be good stewards of the resources entrusted to HHFDC and are committed to exploring ways to work strategically, to be more efficient, and to better leverage limited resources.

As we look to the future, the HHFDC remains focused on our mission of increasing housing opportunities and to our vision of seeking long-term sustainable solutions that will benefit future generations in Hawaii.

CRAIG K. HIRAI
Executive Director

LEGISLATIVE HISTORY

The Hawai`i Housing Finance and Development Corporation (HHFDC) was created to focus on the financing and development of affordable housing.

In 1997, the Legislature established the Housing and Community Development Corporation of Hawai`i (HCDCH) by consolidating the Hawai`i Housing Authority, the Housing Finance and Development Corporation and Rental Housing Trust Fund Commission. The HCDCH administered the state's public housing, homeless assistance, housing finance and housing development programs.

In 2005, the Legislature found that "the burden of administering the public housing projects in the State has overshadowed the ability of the corporation to pay sufficient attention to the financing and development of affordable housing." Therefore, Act 196 of 2005, as amended by Act 180 of 2006, separated the housing financing and development functions from the HCDCH to create the HHFDC.

ORGANIZATIONAL STRUCTURE

The HHFDC is administratively attached to the Department of Business, Economic Development and Tourism. It is governed by a nine-member Board of Directors which establishes policies and executive direction for the Corporation.

Six members are appointed by the Governor from each of the counties of Honolulu, Hawai`i, Maui and Kauai. At least four members must have knowledge and expertise in public or private financing and development of affordable housing, and one member must represent community advocates for low-income housing. The three ex-officio members are the Director of Business, Economic Development and Tourism, the Director of Finance, and a representative of the Governor's office.

FIVE-YEAR PRODUCTION PLAN

The HHFDC has a production plan in place to assist in the finance and development of approximately 4,921 workforce/affordable units over the next five years.

Fiscal Years	Rental	For Sale	Total
2015	362	17	379
2016	650	90	740
2017	1,129	405	1,534
2018	703	520	1,223
2019	736	309	1,045
Total	3,580	1,331	4,921

Halekauwila Place

Stanford Carr Development, LLC

The 204-unit affordable family rental project built on state land, is a public-private partnership between the State and Stanford Carr Development, LLC. targeting families earning 60 percent of area median income.

The project consists of 204 studio, 1-bedroom, 2-bedroom, and 3-bedroom units configured in a 19-floor tower structure and a separate 282 stall parking structure.

The residential units range in size from 395 to 424 square feet (studio); 535 to 597 square feet (one-bedroom); 684 to 782 square feet (two-bedrooms); and 1,093 to 1,511 square feet (three-bedrooms). The units are located from floors 2 through 19 of the residential tower with 5 three-bedroom units located on the ground level of the parking structure.

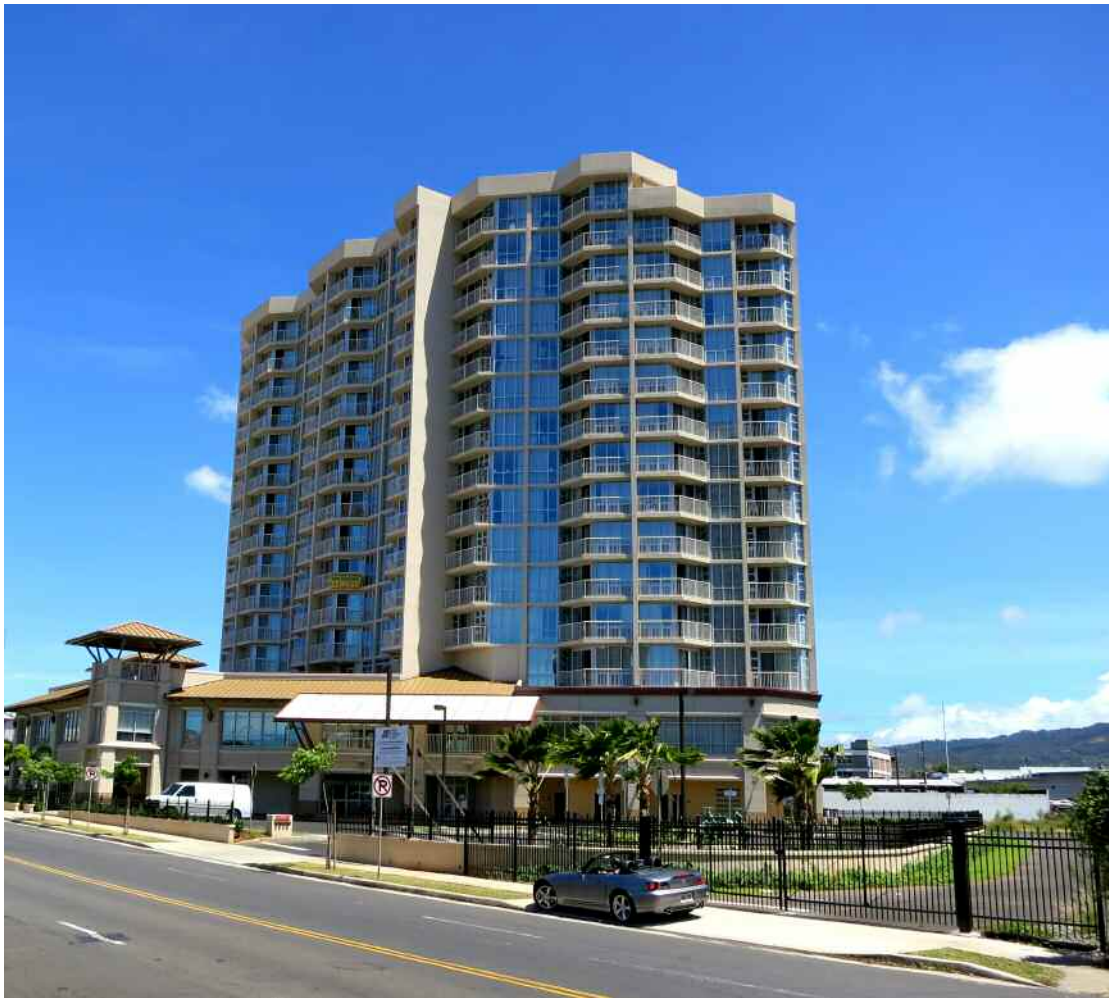
The HHFDC provided Hula Mae Multi-Family Bonds, Low-Income Housing Tax Credits and a Dwelling Unit Revolving Fund loan for the project.

ECONOMIC IMPACT				
Units	Project Value	Direct Jobs	Indirect Jobs	Income Generated
204	$64,033,700	240	127	$41,621,905

Based on DBEDT 2014 Economic Model

Senior Residence at Iwilei

Pacific Housing Assistance Corporation



The Senior Residence at Iwilei is the result of a public-private partnership between the state's Hawai'i Housing Finance and Development Corporation (HHFDC), the City and County of Honolulu, and Pacific Housing Assistance Corporation.

The HHFDC leased 1.825 acres of state land to Pacific Housing Assistance Corporation and provided financing through its Dwelling Unit Revolving Fund, Hula Mae Multi-Family Bond, and Low-Income Housing Tax Credit programs. The Hawai'i State Legislature also appropriated capital improvement project funds for the project in 2011. The City and County of Honolulu approved 201H land use exemptions for the project and awarded Community Development Block Grant funds as well.

The project assists seniors with incomes at or below 60 percent the area median income.

ECONOMIC IMPACT				
Units	Project Value	Direct Jobs	Indirect Jobs	Income Generated
160	$69,440,000	260	138	$45,136,000

Based on DBEDT 2014 Economic Model

DEVELOPMENT RESOURCES

The HHFDC has a toolbox of resources to facilitate the development of affordable rental or for-sale housing including financing, expedited land use approvals under Chapter 201H, Hawaii Revised Statutes, exemptions from general excise taxes, and real property.

FINANCING TOOLS FOR DEVELOPMENT

Low Income Housing Tax Credits (LIHTC)

The LIHTC program is a major financing tool for non-profit and for-profit developers to construct or rehabilitate affordable rental housing. Under the program, HHFDC awards federal and state tax credits that may be used to obtain a dollar-for-dollar offset (tax credit) in income tax liability for 10 years or may be syndicated to generate substantial project equity. There are two types of federal tax credits: 9% competitive tax credits, which are applied against the State of Hawaii's annual LIHTC allocation and 4% non–competitive, which are awarded with tax-exempt bond financing. Approximately $3.299 million in federal and $1.614 million in state tax credits was available for award in FY2014.

Rental Housing Trust Fund (RHTF)

The RHTF provides equity gap low-interest loans or grants to qualified owners and developers for the development, pre-development, construction, acquisition or preservation of affordable rental housing. Preference is given to projects that meet certain statutory criteria. Included is a preference for projects that provide at least 5 percent of the total number of units for persons and families with incomes at or below 30 percent of the median family income. Another preference is projects that provide the maximum number of units for persons or families with incomes at or below 80 percent of the median family income. As of June 30, 2014, the RHTF has outstanding commitments totaling $52,890,684, and a cash balance of $75,059,993

Rental Assistance Revolving Fund (RARF)

The RARF Interim Construction Loan Program provides below market interest rate interim construction loans for affordable rental housing projects (currently 4-5%), as well as a limited amount of project-based rental assistance subsidies to qualified owners of rental projects. The RARF interim construction program is authorized to loan up to an aggregate of $11.5 million. As of June 30, 2014, the full $11.5 million RARF set-aside is uncommitted.

Hawaii Rental Housing System Revenue Bond (HRHSR)

This program was developed to alleviate the shortage of available rental housing opportunities through the development and acquisition of affordable rental housing projects throughout the State. The HRHSR provides tax-exempt bond financing for HHFDC-owned affordable rental projects that provide at least 60 percent of the rental units for tenants earning 80 percent and below the median family income (40 percent of the units may be rented at market rents). There are currently 6 projects consisting of 1,220 units on Oahu, Hawaii and Maui. Bond authority under the program is $375 million. As of June 30, 2014, the available authority is $97,720,000.

Hula Mae Multi-Family Revenue Bond Program

The Hula Mae Multi-Family program provides low interest rate financing through the issuance of tax-exempt revenue bonds for the construction and/or acquisition and rehabilitation of rental housing projects. Developers are able to secure 4% noncompetitive low income housing tax credits in conjunction with the Hula Mae Multi-Family financing. The HHFDC, with the approval of the Governor, is authorized to issue up to $1 billion in revenue bonds. As of June 30, 2014, the program has issued 20 series of bonds, including one refunding series, totaling $418,244,699. Remaining bond issuance authority is $388,266,301, of which $193,489,000 has been committed to 6 projects pending bond issuance.

Dwelling Unit Revolving Fund (DURF)

DURF was established pursuant to Act 105, SLH 1970 which authorized the issuance of $125,000,000 of general obligation bonds to carry out the purposes of the Housing Development Program. Funds may be used for the acquisition of real property; development and construction of residential, commercial and industrial properties; interim and permanent loans to developers; and any and all things necessary to carry out the purposes of the Housing Development Program, including administrative expenses. As of June 30, 2014, DURF has outstanding commitments of $55.29 million and a cash balance of approximately $69.7 million.

FEDERAL FUNDS

Home Investment Partnerships Program (HOME)

The HHFDC administers the federal HOME program which is intended to expand the supply of decent, safe, affordable and sanitary housing. HOME funds may be used for a variety of activities including tenant-based rental assistance, down payment loans for first-time homebuyers, rehabilitation loans for existing homeowners, property acquisition, new construction, reconstruction, moderate or substantial rehabilitation, site improvements, demolition, relocation expenses, loan guarantees, and other reasonable and necessary expenses related to development of affordable housing. The HHFDC receives approximately $3 million in HOME funds from HUD each year. Funds allocated on an annual rotating basis to the Counties of Hawaii, Kauai and Maui.

Hale Mohalu II Senior

Coalition for Specialized Housing

Hale Mohalu II, an affordable senior rental in Pearl City, Oahu added 164 units to the inventory of affordable housing.

The Coalition for Specialized Housing will develop four seven-story buildings on 4.7 acres of state land in lower Pearl City for low-income seniors and families. Five percent of the units will be designated for families or individuals earning up to 30 percent of area median income with the remaining 95 percent designated for families and individuals earning up to 60 percent of the area median income. Proposed 2014 rents range from $585 to $1,200 for family units and $401 to $668 for senior units.

The project is funded by a combination of Hula Mae Multi-Family Bonds, Low-Income Housing Tax Credits, Rental Housing Trust Fund loans and grants administered by the HHFDC and HOME funds administered by the City and County of Honolulu.

Phase 1 consists of 164 senior rentals. Future phases will add 168 family rentals with a 4,925 square foot community building.

ECONOMIC IMPACT				
Units	Project Value	Direct Jobs	Indirect Jobs	Income Generated
164	$41,378,000	155	82	$26,895,700

Based on DBEDT 2014 Economic Model

DEVELOPMENT TOOLS

Real Property

A portfolio of property acquired by negotiation, exchange, or purchase, is made available to developers through the Request for Proposals (RFP) process. Each real property parcel is evaluated for "highest and best use" in relation to the HHFDC working mission and strategies and then an RFP is framed for flexibility to assure that different developer specialties and concentrations can be accommodated.

For the developer, the RFP process starts when a notice is placed in the newspaper with information that a certain real property is available for development. The actual RFP with relevant criteria is made available for review or purchase at the HHFDC. When the completed proposals are received on the given date in the RFP, a selection committee reviews the proposals for compliance with the RFP and a developer is preliminarily selected, subject to approval by the HHFDC Board of Directors. Developer approval is followed with negotiation of development and loan agreements.

Chapter 201H Expedited Processing

Pursuant to Chapter 201H, Hawaii Revised Statutes, the HHFDC may develop, on behalf of the State or with an eligible developer, or may assist under a government assistance program in the development of housing projects which are exempt from all statutes, ordinances, charter provisions, and rules of any governmental agency relating to planning, zoning, construction standards for subdivisions, development and improvement of land, and the construction of units thereon.

Chapter 201H also provides for greater flexibility in the design of housing projects. The particular exemptions requested through the 201H process are reviewed by the appropriate county agencies. All 201H projects must comply with the County building permit process, HRS Chapter 104 (Wages and Hours of Employees on Public Works), and HRS Chapter 343 (Environmental Impact Statements).

Developers are encouraged to begin the 201H process by first contacting the appropriate county. If the county government does not accept the developer's 201H application, the HHFDC will consider the developer's application. The HHFDC requires that the developer conduct at least one public meeting to solicit community input on the proposed project.

General Excise Tax Exemptions

The HHFDC may approve and certify for exemption from GET any qualified person or firm involved with a newly constructed or moderately or substantially rehabilitated project meeting specific income limit and eligibility criteria.costs of Developing State/County Housing Projects.

Villages at Moa`e Ku Phase II

EAH Housing

The Villages of Moa`e Ku Phase II, a Public Private Partnership between the Hawaii Housing Finance & Development Corporation, the City & County of Honolulu and EAH Housing, added 76 rental apartments for families at or below 60% of the area median income. The project is conveniently located next to the Ewa Elementary School, Ewa Beach parks and shopping centers.

The HHFDC provided Hula Mae Multi-Family Bonds, Low-Income Housing Tax Credits and Rental Housing Trust Fund financing for the project.

The apartments will be built in three phases and will consist of twelve two-story buildings. Phase I, which contains 64 units, opened in April 2013. The one-, two- and three-bedroom units feature entrances directly accessible from the outside of the building and facing a central lawn and open landscaping. Phase II, which consists of 76 units, was completed in October 2014.

The development includes a community room with a kitchen, computer learning facility and meeting space for residents along with a fenced-in tot lot for the protection of the keikis.

ECONOMIC IMPACT				
Units	Project Value	Direct Jobs	Indirect Jobs	Income Generated
76	$27,653,895	77	70	$16,592,337

Based on DBEDT 2014 Economic Model

Ko`oloa`ula Phase II

Mutual Housing Association of Hawaii

The Public Private Partnership between HHFDC, the City and County of Honolulu, HUD and Mutual Housing Assistance of Hawaii completed its first phase of 120 affordable rental units at Ko`oloa ula in East Kapolei in April 2013.

Phase II will add 188 units for a total of 308 units to be built over the next several years in the Ko`oloa ula community.

Ko‘oloa‘ula will give renters a choice between 11 different floorplans for apartments with up to four bedrooms. Rents are targeted for families earning 30%, 50% and 60% of the HUD median income for the area.

The HHFDC provided Hula Mae Multi-Family Bonds, Low-Income Housing Tax Credits and Rental Housing Trust Fund financing for the project. In exchange for affordability, HHFDC is leasing the land to Mutual Housing Assistance of Hawaii for 65 years.

ECONOMIC IMPACT				
Units	Project Value	Direct Jobs	Indirect Jobs	Income Generated
188	$45,875,000	127	320	$27,525,000

Based on DBEDT 2014 Economic Model

FINANCING RESOURCES FOR FIRST-TIME HOMEBUYERS

The HHFDC's single-family programs are consumer oriented, providing below-market rate mortgage financing, tax credits, and down payment loans to assist eligible first-time homebuyers.

Hula Mae Single Family Program

The Hula Mae Single Family program offers eligible first-time homebuyers with mortgage financing at very competitive interest rates. Since 1979, the Program has issued over $1.948 billion of Hawaii Single Family Mortgage Purchase Revenue Bonds. Borrowers apply directly with participating lending institutions and must meet federal eligibility requirements including income and purchase price limitations, as well as the three year no prior ownership interest in a principal residence requirement. As of June 30, 2014, 10,154 families were able to purchase their first homes.

On December 1, 2011, the HHFDC issued $50 million in tax-exempt revenue bonds, which provided approximately $44 million for eligible first-time homebuyers for its current Hula Mae Single Family program. The HHFDC participated in the New Issue Bond (NIB) Program, established by the Housing and Economic Recovery Act of 2008, providing for the federal government to purchase up to 60% of a housing finance agency bond issue at below market rates through its Government Sponsored Entities, Fannie Mae and Freddie Mac. The 2011 Hula Mae Single Family program featured an optional downpayment assistance program providing up to 3% of the principal amount of their Hula Mae loan at closing. Borrowers also had the option of using federal mortgage insurance programs provided through FHA, USDA or VA with their Hula Mae loan. As of June 30, 2014, the 2011 program has been fully subscribed

Mortgage Credit Certificate (MCC) Program

The MCC program provides eligible first-time homebuyers with a direct tax credit against their federal income tax liability to make more income available to qualify for a mortgage loan and make monthly payments. The amount of credit is equivalent to 20% of the annual interest paid on a mortgage loan. MCCs are offered through participating lenders. As of June 30, 2014, the HHFDC has traded in approximately $916 million of mortgage revenue bond authority for just over $229 million of MCC authority and to date, has assisted 3,170 families in purchasing their first homes. During FY 2014, the program has assisted 285 families in purchasing their first homes.

HOMEBUYER/HOMEOWNER COUNSELING

National Foreclosure Mitigation Counseling Program (NFMC)

NFMC is a federal program established to provide counseling and limited legal assistance to families and individuals facing the threat of foreclosure. HHFDC received five awards of NFMC funds (NFMC Rounds 2 through 7), totaling $1.05 million. As of June 30, 2014, through partnerships with nonprofit counseling agencies, 5,220 homeowners have received foreclosure mitigation counseling under the NFMC program.

The Making Home Affordable Program (MHA)

MHA helps families avoid foreclosure and strengthen the housing market recovery. HHFDC was awarded up to $27,100 to provide free mortgage modification counseling to homeowners with difficulty making their mortgage payments or facing threat of foreclosure. HHFDC is partnering with local HUD-approved agencies to provide free counseling services. The counseling agencies can also help homeowners at risk with loan modifications and alternative plans of action. As of June 30, 2014, 40 homeowners received loan modifications under MHA.

Emergency Homeowners' Loan Program (EHLP)

EHLP, authorized by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, provides loan funds to eligible homeowners who have become unemployed or underemployed due to the economic downturn or a medical condition to avert foreclosure. Loans of up to $50,000 assist homeowners with payments of arrearages, including delinquent taxes and insurance plus up to 24 months of monthly payment on their mortgage principal, interest, mortgage insurance premiums, taxes and hazard insurance. HHFDC, again in partnership with nonprofit housing counseling agencies, was awarded up to $79,089.05 under the EHLP to provide housing counseling services for the loan period. As of June 30, 2014, 35 homeowners received counseling services under EHLP.

HUD Comprehensive Housing Counseling (CHC)

CHC provides funds for counseling services to current and potential homeowners and tenants to assist them in improving their housing conditions and in meeting the responsibilities of homeownership or tenancy. HHFDC was awarded up to $21,460 under CHC, and in partnership with the Department of Hawaiian Home Lands and its subgrantee, Hale Mahaolu, will provide these services in the County of Maui.

ANCILLARY RESPONSIBILITIES

Maintaining Waiahole Valley Subdivision

The HHFDC owns approximately 750 acres in Waiahole Valley and a 1.0 million gallon water system that services the residents and Waiahole Elementary School. There are 159 total lots for residential, agricultural and commercial use, open space, water lots, stream lots, and roadways. Approximately $22.4 million has been spent to acquire the property and for capital improvements as of June 30, 2014. In addition, a total of $11.4 million has been charged to the project for General Obligation Bond interest through June 30, 2003, when the bonds were retired.

Imi Ikena Apartments

Imi Ikena Housing Partners, LLC

Imi Ikena is a public-private partnership between HHFDC, the County of Maui, Imi Ikena Housing Partners LLC, and EAH Housing.

The two and three-bedroom apartments, located in Wailuku, are designed for households earning between 30 percent and 50 percent of the area median income. The project is in close proximity to Maui Community College, Kahului Public Library and is a short commute to the downtown area.

Imi Ikena adheres to Green design principles with solar water heating, water conserving plumbing and Energy Star appliances and light fixtures.

The HHFDC financed $9.4 million in proceeds from the Low-Income Housing Tax Credit and State Low-Income Housing Tax Credit Loan programs.

ECONOMIC IMPACT				
Units	Project Value	Direct Jobs	Indirect Jobs	Income Generated
28	$10,470,857	29	73	$6,282,514

Based on DBEDT 2014 Economic Model

Hale Makana `O Nanakuli

Hawaiian Community Development Board

Hale Makana O Nanakuli is a new 48-unit affordable rental targeted at families earning 30-40% of Average Median Income (from $28,750 to $38,320 for a family of four), with rents not to exceed 30% of their gross area income.

The HHFDC partnered with the nonprofit Hawaiian Community Development Board and California company Urban Housing Communities to develop the transitional and long-term rental housing designed to meet the needs of the Nanakuli community, with focus on Nanakuli's low-income families. It will provide immediate relief to many Nanakuli families with overcrowded households, families living in dangerous dilapidated houses, and/or families who have been forced to abandon their homes.

Hale Makana O Nanakuli is one component of the "Nanakuli Village Center" that will include a multipurpose learning center, a Waianae Comprehensive Health Center clinic with an affordable pharmacy, a renal clinic and commercial center with Longs Drug Store as the anchor tenant. Its location within the homesteading community will facilitate easy access to cultural, educational, social, health, and economic opportunities.

The HHFDC provided financing from its Hula Mae Multi-Family Bond, Low-Income Housing Tax Credit and Rental Housing Trust Fund programs.

ECONOMIC IMPACT

Units	Project Value	Direct Jobs	Indirect Jobs	Income Generated
72	$13,812,862	38	96	$8,287,717

Based on DBEDT 2014 Economic Model

Maintaining Infrastructure in the Villages of Kapolei

The City and County of Honolulu has not yet accepted dedication of infrastructure in the Villages of Kapolei. Therefore, the HHFDC maintains the infrastructure and has engaged a consultant to assist with the dedication. The time frame for dedication cannot be readily estimated as the dedication process involves many different agencies, entities, consultants and contractors.

The current infrastructure budget is approximately $195 million, of which $130 million has been expended as of June 30, 2014. This includes $116.8 million in infrastructure development costs and $13.2 million in interim maintenance costs. There has been no interest charge to the project because it was initially funded by the Homes Revolving Fund, which was repealed in 2003.

The Villages of Kapolei was developed pursuant to Act 15, SLH 1988. The Act provided the Housing Finance and Development Corporation (HFDC) (predecessor to the HHFDC) with temporary powers to expedite the development of affordable housing. It authorized the HFDC to develop housing projects that were exempt from all statutes, ordinances, charter provisions, and rules of any governmental agency relating to planning, zoning, construction standards for subdivisions, development and improvement of land, and the construction of units thereon; provided that the project met minimum requirements of health and safety; did not contravene any safety standards or tariffs approved by the Public Utilities Commission for public utilities; and the HFDC first conducted a public hearing after reasonable notice in the county in which project was situated.

Land Programs – Chapters 516 and 519, HRS

The purpose of the Land Reform Act of 1967 was to encourage widespread ownership of fee simple lands among Hawaii's people. Pursuant to Chapter 516, HRS, the HHFDC assists lessees of single family homes to purchase the leased fee interest in their houselots by petitioning the state to facilitate a lease-to-fee conversion through its use of eminent domain powers. Since inception of the Land Reform Program, over 14,600 lessees have been assisted. The HHFDC continues to provide assistance and information on the lease to fee conversion process, as well as promote negotiated settlements to reduce conversion costs.

Chapter 519, HRS provides the framework for the fair arbitration of renegotiated ground lease rents for one- or two-family residential leasehold lots and cooperative housing corporations. The Lease Rent Renegotiation Program is used when lessees and lessors are unable to agree on the amount of the new lease rent upon expiration of the fixed term of the lease.

Assistance to Displaced Persons - Chapter 111, HRS

Chapter 111, HRS establishes a uniform policy for the fair and equitable treatment of owners, tenants, other persons, and business concerns lawfully residing on or lawfully occupying real property and displaced by the acquisition of real property for public or other purposes in the public interest and by building, zoning, and housing code enforcement activities. The HHFDC must assure that relocation payments are fair, reasonable, and promptly paid.

PROJECTS IN DEVELOPMENT

Green Homes at Lualualei – 25-unit affordable, for-sale homes located in Waianae, Oahu. In an effort to combine a sustainable approach to building and living affordably, Green Homes at Lualualei will conserve energy through its design, energy-efficient appliances and utilize solar technology. *Developer - Green Homes at Lualualei, LLC*

Halawa View Apartments – Rehabilitation of approximately 121 rental units in a 14-story and two 3-story building in Aiea. *Developer - Hawaii Pacific, LLC*

Hale Mohalu II Family – 84 rental units in Pearl City. When completed, the master planned project will consist of a 164-unit senior project and a future 168-unit family rental housing project on approximately 4.7 acres of state land. *Developer - Coalition for Specialized Housing*

Hale Uhiwai Nalu Addition – 50-unit new construction addition to the Hale Uhiwai Nalu in Kapolei. Units are targeted at Veterans earning percent and below of AMI. *Developer - Cloudbreak Hawaii, LLC*

Kamakana at Keahuolu – Master-planned community on 272 acres of non-ceded land in Keahuolu, Kailua-Kona, Hawai`i. Approximately 1,169 units of the total projected 2,330 homes will be workforce and affordable. *Developer - Forest City Hawaii Kona, LLC*

Kewalo Apartments - 38-unit Acquisition/Rehabilitation located in the urban core of Honolulu. *Developer - Hawaii Pacific LLC*

Kolopua - 44-unit workforce rental in Princeville, Kauai. 16 one-bedroom, 16 two-bedroom and 12 three-bedroom apartments with rents not to exceed 60 percent of AMI. *Developer - Vitus Group, Inc.*

Ko`oloa`ula Phase II – 188-unit rental project in East Kapolei, Oahu. The ten three-story townhome rental is targeted at families earning 30 to 60 percent of AMI and will remain affordable for 63 years. *Developer - Mutual Housing Association of Hawaii, Inc.*

Rice Camp Senior A groundbreaking ceremony was held for the 60-unit senior community in Lihue, Kauai for seniors.

Hale Uhiwai Nalu Addition 50-unit new construction addition to the Hale Uhiwai Nalu for Veterans earning 80 percent and below AMI.

Ma`ili III Self-Help Housing - HHFDC provided interim DURF loans, for predevelopment and infrastructure costs for the 72-unit fee simple housing project located on the Waianae Coast of Oahu. *Developer - Self Help Housing Corporation of Hawaii*

Meheula Vista Senior I-IV - 301-unit master planned community for seniors located in Mililani, Oahu. Meheula Vista will provide low-income seniors an affordable permanent living option where residents can age in place. *Developer - Catholic Charities Hawaii*

Nohona at Kapolei III - 40 fee-simple townhomes with prices starting in the low $300,000s. Nohona III at Kapolei consists of 4 new two-story buildings with two- or three-bedroom floor plans with up to 1,184 square feet of living space. *Developer - Castle & Cooke Homes Hawaii, Inc.*

Pokai Bay Self Help - HHFDC provided interim DURF loans, for predevelopment and infrastructure costs for 70 vacant lots located on the Waianae Coast of Oahu. *Developer - Self Help Housing Corporation of Hawaii*

Rice Camp Senior - 60-unit planned senior community in Lihue, Kauai to provide housing for seniors at 60 percent and under AMI. *Developer - Vitus Group, Inc.*

Riverside Apartments - 74-unit rehabilitation project located in Hilo, Hawaii. One, two and three-bedroom apartments are targeted to families earning 30 to 50 percent of AMI. *Developer - UHC00382 Hilo*

HOUSING-RELATED LEGISLATION PASSED IN 2014

Act 122, Session Laws of Hawaii 2014 (House Bill 1700, H.D. 1, S.D. 1, C.D. 1)
Relating to the State Budget.
Hawaii Housing Finance and Development Corporation received the following Capital Improvement Project appropriations for Fiscal Year 2014-2015:

- Rental Housing Trust Fund Infusion, Statewide $5,000,000
- Dwelling Unit Revolving Fund Infusion, Statewide $7,000,000*
- Low-Income Housing Tax Credit Loans, Statewide $7,832,000
- Hale Mahaolu Ewalu, Maui (construction grant-in-aid) $4,000,000

*Note: DURF appropriation is the second year of a 2 year appropriation ($7M in FY2013-2014; $7M in FY2014-2015) made in Act 132, Session Laws of Hawaii 2013.

Act 162, Session Laws of Hawaii 2014 (House Bill 2251, H.D. 1, S.D. 1, C.D. 1)
Relating to the Housing Loan and Mortgage Program.
This bill increased the Hawaii Housing Finance and Development Corporation's Hula Mae Multifamily cumulative revenue bond authority from $750,000,000 to $1,000,000,000. This will allow the agency to continue to provide financing assistance for affordable rental housing projects.

Act 163, Session Laws of Hawaii 2014 (Senate Bill 2542, S.D. 1, H.D. 1, C.D. 1)
Relating to the Disposition of the Conveyance Tax Collections to the Rental Housing Trust Fund.
This bill restored to 50 percent the allocation of State conveyance tax collections to the Rental Housing Trust Fund as of July 1, 2014. This is an increase of 20 percent over the previous year's allocation. The Rental Housing Trust Fund is used to provide gap equity financing for affordable rental housing projects.

Act 194, Session Laws of Hawaii 2014 (House Bill 2448, H.D. 2, S.D. 1, C.D. 1)
Relating to the Hawaii Housing Finance and Development Corporation.
This bill authorizes HHFDC to issue revenue bonds to assist in financing the development of infrastructure for land owned by an eligible developer for the construction of affordable housing projects. The bill also establishes cumulative revenue bond authority of $125,000,000 for this purpose.

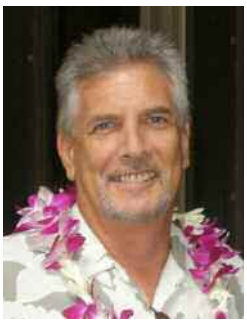
The following Concurrent Resolution approving the fee simple sale of HHFDC lands was adopted:

Senate Concurrent Resolution 13
Approving The Sale Of The Leased Fee Interest In 41-669 Inoaole Street, Waimanalo, Hawaii.

Board of Directors

Craig K. Hirai
Executive Director

Ralph Mesick
Chairman (At-Large)
Served July 2008 - July 2014



Paul Kyno
Vice-Chairman (Kauai)
Served July 2011 - July 2014

Leilani Pulmano
Secretary (Maui)

Allan Los Banos
Director (Honolulu)
Served April 2007 - August 2014

Betty Lou Larson
Director (Private Non-Profit)
Served July 2006 - June 2014

Richard C. Lim
Ex-Officio Member
Director, Department of Business, Economic Development and Tourism
Served March 2011 - December 2014

Michael Ng
Ex-Officio Member
Office of the Governor
Served March 2011 - December 2014

Kalbert Young
Ex-Officio Member
Director, Department of Budget and Finance
Served December 2011 - December 2014

Additional information is provided in the Audited Financial Statements available online at: www.dbedt.hawaii.gov/hhfdc/

HHFDC

Hawaii Housing Finance &
Development Corporation

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www.dbedt.hawaii.gov/hhfdc/

ACcuity LLP

CERTIFIED PUBLIC ACCOUNTANTS

State of Hawai‘i
Hawaii Housing Finance and Development Corporation

Financial and Compliance Audit

June 30, 2014

Submitted by
The Auditor
State of Hawai‘i

Quality *Integrity* *Insight*

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
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June 30, 2014

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PART I
Financial Statements

ACcuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

The Auditor
State of Hawai‘i

The Board of Directors
State of Hawai‘i, Hawaii Housing Finance and Development Corporation

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of Hawai‘i, Hawaii Housing Finance and Development Corporation (the “Corporation”), as of and for the year ended June 30, 2014, which collectively comprise the Corporation’s basic financial statements as listed in the index.

Management’s Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

an independent member of
BAKER TILLY
INTERNATIONAL

999 Bishop Street, Suite 1900
Honolulu, Hawaii 96813
Telephone: 808 531 3400 Facsimile: 808 531 3433

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Corporation as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the HOME Investment Partnership Program and the Neighborhood Stabilization Program Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1, the financial statements of the Corporation include only the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Corporation, and are not intended to present fairly the financial position of the State of Hawai‘i as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 12 and pages 20 through 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board ("GASB"), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The combining non-major fund financial statements and reconciliation of cash and short-term investments are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The combining non-major fund financial statements, reconciliation of cash and short-term investments and schedule of expenditures of federal awards are the responsibility of management, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major fund financial statements, reconciliation of cash and short-term investments and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Change in Accounting Principle
As discussed in Note 17 to the financial statements, in 2014 the Corporation adopted the new accounting guidance, GASB Statement No. 65*, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2014 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawaii
November 19, 2014

The management of the State of Hawai‘i, Hawaii Housing Finance and Development Corporation (the “Corporation”) offers readers of the Corporation’s financial statements this narrative overview and analysis of their financial activities for the fiscal year ended (“FYE”) June 30, 2014. This document should be read in conjunction with the audited financial statements. All amounts presented in tables, unless otherwise indicated, are expressed in thousands of dollars.

Introduction

The Corporation was established by the State Legislature effective July 1, 2006 in accordance with Act 196, SLH 2005, as amended by Act 180, SLH 2006.

The Corporation’s mission is to increase the supply of workforce and affordable homes by providing tools and resources to facilitate housing development. Tools and resources include housing tax credits, low interest construction loans, equity gap loans, developable land and expedited land use approvals.

The Corporation is administratively attached to the State Department of Business, Economic Development and Tourism. The Corporation’s Board of Directors consists of nine members, six of whom are public members appointed by the Governor, and confirmed by the State Senate. Public members are appointed from each of the counties of Honolulu, Hawai‘i, Maui, and Kaua‘i. At least four of the public members must have knowledge and expertise in public or private financing and development of affordable housing. At least one public member represents community advocates for low-income housing affiliated with private nonprofit organizations that serve the residents of low-income housing. The Director of Business, Economic Development and Tourism; the Director of Finance; and a representative of the Governor’s Office are ex-officio voting members. All Corporation action is taken by the affirmative vote of at least five members.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial statements of the Corporation for the period ended June 30, 2014. The financial statements consist of Management’s Discussion and Analysis, the basic financial statements, related notes to the financial statements and other required supplementary information. These components are described below:

Basic Financial Statements
The basic financial statements include two kinds of statements that present different views of the Corporation:

- The first two statements are Corporation-wide financial statements that provide information about the Corporation’s overall financial position and results of operations. These statements are presented on an accrual basis of accounting and consist of the Statement of Net Position and the Statement of Activities.

- The remaining statements are the fund financial statements of the Corporation’s governmental funds, for which activities are funded primarily from appropriations from the State, the Corporation’s major and non-major proprietary funds, which operate similar to business-type activities. The governmental funds are presented on a modified accrual basis of accounting while the proprietary funds are presented on an accrual basis of accounting.

- The basic financial statements also present budgetary comparison statements, which are required.

- The basic financial statements also include a “Notes to Financial Statements” section that explains some of the information in the government-wide and fund financial statements and provides more detailed data.

- The “Notes to Financial Statements” are followed by a “Supplementary Information” section, which presents combining information on non-major funds, which is not required.

Government-wide Financial Statements
The government-wide statements report information about the Corporation as a whole using accounting methods similar to those used by private sector companies. The statement of net position provides both short-term and long-term information about the Corporation’s financial position, which assists in assessing the Corporation’s economic condition at the end of the fiscal year. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Most of the Corporation’s activities are business-type activities and are reported in its proprietary funds. The government-wide financial statements include two statements:

- The *statement of net position* presents all of the Corporation’s assets and deferred outflows of resources less liabilities, with the difference reported as “net position.” Over time, increases and decreases in the Corporation’s net position may serve as a useful indicator of the health of the financial position of the Corporation.

- The *statement of activities* presents information indicating how the Corporation’s net position changed during the most recent fiscal year.

The government-wide financial statements of the Corporation are divided into two categories:

- *Governmental activities* – The activities in this section are primarily supported by State or Federal appropriations or by Federal contributions.

- *Business-type activities* – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users.

Fund Financial Statements
The fund financial statements provide more detailed information about the Corporation’s most significant funds and not the Corporation as a whole. The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. Funds are either reported as a major fund or a non-major fund. The Governmental Accounting Standards Board (“GASB”) issued Statement No. 34, *Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments*, which sets forth the minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and are detailed in the combining section of the financial statements.

The Corporation has two types of funds:

- *Governmental Funds*
  - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.
  - Governmental fund financial statements help determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation's programs.
  - The focus of the governmental funds is narrower than that of the government-wide financial statements; therefore, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decision.
  - Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.
- *Proprietary Funds* – The Corporation's only type of proprietary funds are its enterprise funds, which are used to account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing services to customers.

Notes to Financial Statements
The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Supplementary Information
In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining financial statements of the non-major funds and reconciliation of cash and short term investments are presented as supplementary information.

Supplementary information also includes the Schedule of Expenditures of Federal Awards ("SEFA"). The SEFA reports federal awards to the Corporation on an accrual basis of accounting for the year ended June 30, 2014.

Government-wide Financial Analysis

As noted earlier, the *statement of net position* presents all of the Corporation’s assets and deferred inflows of resources less liabilities, with the difference reported as net position. Over time, changes in net position may serve as a useful indicator of the Corporation’s financial statements. As indicated below, as of June 30, 2014, the Corporation’s total net position was approximately $590,851,000, an increase of $32,833,000 (or 5.9%) from the previous year.

Government-Wide Condensed Statements of Net Position
June 30, 2014 and 2013
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		
	2014	2013	2014	2013 (Restated / Reclassified)	2014	2013 (Restated / Reclassified)	Percent Change
Current assets	$ 7,019	$ 7,056	$ 252,904	$ 297,513	$ 259,923	$ 304,569	-14.7%
Assets held by trustee	-	-	164,070	179,917	164,070	179,917	-8.8%
Capital assets	-	69	96,256	91,672	96,256	91,741	4.9%
Other assets	9,862	9,861	475,227	443,011	485,089	452,872	7.1%
Total assets	16,881	16,986	988,457	1,012,113	1,005,338	1,029,099	-2.3%
Deferred outflows of resources	-	-	588	727	588	727	-19.1%
Total assets and deferred outflows of resources	$ 16,881	$ 16,986	$ 989,045	$ 1,012,840	$ 1,005,926	$ 1,029,826	-2.3%
Current liabilities	$ 19	$ 56	$ 14,824	$ 79,889	$ 14,843	$ 79,945	-81.4%
Long-term liabilities	-	-	400,232	391,863	400,232	391,863	2.1%
Total liabilities	19	56	415,056	471,752	415,075	471,808	-12.0%
Net position							
Net investment in capital assets	-	69	35,073	24,966	35,073	25,035	40.1%
Restricted	9,862	9,861	135,144	153,853	145,006	163,714	-11.4%
Unrestricted	7,000	7,000	403,772	362,269	410,772	369,269	11.2%
Total net position	16,862	16,930	573,989	541,088	590,851	558,018	5.9%
Total liabilities and net position	$ 16,881	$ 16,986	$ 989,045	$ 1,012,840	$ 1,005,926	$ 1,029,826	-2.3%

Current assets decreased by approximately $44,646,000 (or 14.7%) during 2014 primarily related to decreases in current mortgage loans receivable of $57,838,000, inventories of $12,815,000, and cash and cash equivalents and investments in the State Treasury of $3,530,000, offset by an increase in notes and loans receivable of approximately $24,839,000.

Assets held by trustee result from the trust indentures of the revenue bond funds requiring cash and investments to be held by a trustee. These assets decreased by approximately $15,847,000 (or 8.8%) during 2014 due primarily to a net decrease in the cash and cash equivalents and investments of approximately $16,184,000 and $2,465,000 in the Single Family Mortgage Purchase Revenue Bond Fund and Multifamily Housing Revenue Bond Fund, respectively, due to either repayments or defeasance of issued bonds. Restrictions on net position, which represent resources that are subject to external restrictions on how they may be used, primarily include the assets held by trustee and decreased by approximately $18,708,000 (or 11.4%) during 2014.

Capital assets increased by approximately $4,515,000 (or 4.9%) during 2014 primarily due to the recapture of the Kahikolu property of approximately $10,284,000, offset by depreciation expense of $5,513,000.

Other assets increased by approximately $32,217,000 (or 7.1%) during 2014 primarily due to a net increase of approximately $24,941,000 and $4,698,000 in mortgage loans in the Multifamily Housing Revenue Bond Fund and the Housing Finance Revolving Fund, respectively.

Current liabilities decreased by approximately $65,103,000 (or 81.4%) during 2014 primarily due to a decrease in the current portion of revenue bonds payable of approximately $62,515,000.

Long-term liabilities increased by approximately $8,369,000 (or 2.1%) primarily due to an increase in the long term portion of revenue bonds of approximately $9,639,000.

Net position net investment in capital assets consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Unrestricted net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The statement of activities below presents information indicating how the Corporation’s net position changed during the most recent fiscal year:

Government-Wide Statements of Activities
Years Ended June 30, 2014 and 2013
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		
	2014	2013	2014	2013 (Restated)	2014	2013 (Restated)	Percent Change
Revenues							
Program revenues							
Charges for services	$ -	$ -	$ 58,683	$ 49,984	$ 58,683	$ 49,984	17.4%
Operating grants and contributions	5,328	6,381	4,687	6,190	10,015	12,571	-20.3%
General revenues							
State allotted appropriations, net of lapses	8,300	5,000	-	-	8,300	5,000	66.0%
Net change in fair value of equity in cash and cash equivalents and investments in State Treasury	-	-	-	1,199	-	1,199	-100.0%
Total revenues	13,628	11,381	63,370	57,373	76,998	68,754	12.0%
Expenses							
Governmental activities							
Expenditures	5,396	6,452	-	-	5,396	6,452	-16.4%
Business-type activities							
Rental assistance program	-	-	1,959	1,889	1,959	1,889	3.7%
Housing development program	-	-	12,636	6,391	12,636	6,391	97.7%
Multi-family mortgage loan programs	-	-	5,241	5,723	5,241	5,723	-8.4%
Single-family mortgage loan program	-	-	5,103	10,019	5,103	10,019	-49.1%
Rental housing program	-	-	19,779	20,310	19,779	20,310	-2.6%
Others	-	-	1,662	1,901	1,662	1,901	-12.6%
Total expenses	5,396	6,452	46,380	46,233	51,776	52,685	-1.7%
Net change before transfers	8,232	4,929	16,990	11,140	25,222	16,069	57.0%
Transfers	(8,300)	(31,000)	15,911	31,000	7,611	-	100.0%
Change in net position	(68)	(26,071)	32,901	42,140	32,833	16,069	104.3%
Net position							
Beginning of year (restated)	16,930	43,001	541,088	498,948	558,018	541,949	3.0%
End of year	$ 16,862	$ 16,930	$ 573,989	$ 541,088	$ 590,851	$ 558,018	5.9%

Governmental Activities

For the fiscal year ended June 30, 2014, total net position of the governmental activities decreased by approximately $68,000 from $16,930,000 in 2013 to $16,862,000 in 2014. The decrease is primarily due to the operational expenses of the governmental programs of approximately $5,396,000 exceeding total operating grants and contributions of approximately $5,328,000 during 2014.

Business-type Activities

Revenues of the Corporation's business-type activities were primarily from charges for services, program investment income and federal assistance program funds. Charges for services consist primarily of rental income and interest income of loans related to the Corporation's lending programs. The majority of the program investment income is from income earned within the Corporation's bond funds and is restricted to those funds.

For the fiscal year ending June 30, 2014, business-type activities increased the Corporation's net position by approximately $32,901,000 after transfers of $15,911,000. Key elements of this increase are as follows:

- Total revenues of $63,370,000 exceeded total expenses by $16,990,000. Revenues primarily consisted of $58,683,000 in charges for services for 2014, while the $46,380,000 in expenses primarily consisted of operating expenses for the Corporation's various business-type functions.

- Net transfers increased net position by approximately $15,911,000 due to the recapture of the Kahikolu project into the Dwelling Unit Revolving Fund of approximately $11,213,000, and transfers to the Housing Finance Revolving Fund of approximately $4,698,000.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirement.

Governmental Funds
At June 30, 2014, the Corporation's governmental funds reported total fund balances of $16,862,000.

The governmental funds consist of three major funds and several non-major funds. The three major funds are the (1) HOME Investment Partnership Program, (2) Neighborhood Stabilization Program ("NSP") Fund, and (3) General Obligation Bond Fund.

- The *HOME Investment Partnership Program* was established for the purpose of enhancing the State and local government's ability to provide affordable housing for low- and very low-income families through funding strategies designed to increase the supply of decent affordable housing by offering financial and technical assistance to participating jurisdictions. The fund had no ending fund balance at June 30, 2014 as all revenues recognized were expended.

- The *Neighborhood Stabilization Program Fund* was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment through the purchase and redevelopment of foreclosed and abandoned homes and residential properties. The fund had no ending fund balance at June 30, 2014 as all revenues recognized were expended.

- The *General Obligation Bond Fund* is used to transfer proceeds from the State's issuance of general obligation bonds to the Corporation for subsequent use by the Corporation's other funds. The Fund had a fund balance of $7,000,000 as of June 30, 2014.

Proprietary Funds
The proprietary funds consist of five major and several non-major funds. The five major funds are the: (1) Rental Housing Trust Fund, (2) Dwelling Unit Revolving Fund, (3) Hawaii Rental Housing System Revenue Bond Fund, (4) Single Family Mortgage Purchase Revenue Bond Fund, and (5) Multifamily Housing Revenue Bond Fund.

- The *Rental Housing Trust Fund* provides developers of qualified rental housing projects with loans and/or grants for the development, predevelopment, construction, acquisition, preservation and rehabilitation of rental housing units. The fund recognized an increase in net position of approximately $24,660,000 in 2014, compared to an increase of $23,729,000 in 2013. The 2014 increase in net position consisted of conveyance tax collections of approximately $22,765,000, loan interest income of $1,704,000, and $199,000 of interest on investments, less operating expenses of approximately $157,000.

  Conveyance taxes increased by approximately $6,356,000 (or 38.7%) to $22,765,000 in 2014 from $16,409,000 in 2013, due to an increase in real estate activity compared to last year. Interest on investments decreased due to the sale of the State's auction rate securities during fiscal year 2013.

- The *Dwelling Unit Revolving Fund* accounts for State funds used for acquiring, developing, selling, leasing and renting residential, commercial and industrial properties, providing interim financing, which generates rents, sales proceeds and interest earnings from the financing and investment of such funds. The fund had an increase in net position of $6,187,000 in 2014, which was due primarily to a $11,213,000 transfer into the Dwelling Unit Revolving Fund, interest income of $1,407,000, offset by operating expenses of $12,636,000 exceeding operating revenues of $6,203,000.

- The *Hawaii Rental Housing System Revenue Bond Fund* accounts for special funds for housing projects or systems of housing projects financed from proceeds of bonds secured under the same trust indenture. The fund accounts for six multifamily rental housing projects located throughout the State. The fund had a loss of approximately $311,000 in 2014, which was a decrease of approximately $1,460,000 (or 82.4%) from the loss of $1,771,000 in 2013. The decrease in the loss is due to an increase in rental revenues and a decrease in project, administration and interest expenses.

- The *Single Family Mortgage Purchase Revenue Bond Fund* accounts for the proceeds from the issuance of bonds used to make below-market interest rate mortgage loans and the repayment, interest and earnings from such loans and investment of such funds. Net position in the fund decreased by approximately $1,178,000, as a result of an operating loss of $2,001,000, offset by nonoperating revenues of $823,000.

- The *Multifamily Housing Revenue Bond Fund* accounts for the proceeds from the issuance of bonds to provide interim construction loans and/or permanent financing at below market interest rates to facilitate the construction or rehabilitation of affordable housing projects. Net position in the fund increased by approximately $230,000 primarily as a result of operating revenues which is comprised mostly of interest income on mortgage loans exceeding operating expenses, which is comprised mostly of interest expense.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2014, the Corporation had invested approximately $96,256,000 (net of accumulated depreciation of $115,613,000) in a broad range of capital assets. This amount represents an increase of approximately $4,515,000 (or 4.9%) over the prior year, primarily due to additions of approximately $10,400,000 and depreciation expense of $5,513,000.

Corporation’s Capital Assets
June 30, 2014 and 2013
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Percent
	2014	2013	2014	2013	2014	2013	Change
Land	$ -	$ -	$ 43,231	$ 43,290	$ 43,231	$ 43,290	-0.1%
Buildings and improvements	-	-	165,469	155,459	165,469	155,459	6.4%
Equipment	568	568	2,601	2,497	3,169	3,065	3.4%
Total	568	568	211,301	201,246	211,869	201,814	5.0%
Accumulated depreciation	(568)	(499)	(115,045)	(109,574)	(115,613)	(110,073)	5.0%
Total capital assets, net	$ -	$ 69	$ 96,256	$ 91,672	$ 96,256	$ 91,741	4.9%

Debt Administration

Through June 30, 2014, approximately $2.7 billion of revenue bonds have been issued. The revenue bonds are payable solely from the revenues and other monies and assets of the Revenue Bond Funds and other assets of the Corporation pledged under the various bond indentures. Revenue bonds payable, net of premiums, decreased by approximately $52,876,000 to approximately $337,771,000 at June 30, 2014 from $390,647,000 at June 30, 2013. During the year ended June 30, 2014, the Corporation drew $48,423,000 from the drawdown bonds in the Multifamily Housing System. Bond redemptions were approximately $15,318,000, $2,685,000 and $83,988,000 for the Single Family Mortgage Purchase, Hawaii Rental Housing System and Multifamily Housing Revenue Bond Funds, respectively.

As of June 30, 2014, Moody’s Investors Service’s rating of the Corporation continued to be A2 with a negative outlook. The Corporation’s bond ratings for the Single Family Mortgage Purchase Revenue Bond program were as follows:

- Standard & Poor’s Rating Services: AA+
- Moody’s Investors Service: Aaa
- Fitch Ratings: AAA

Currently Known Facts, Decisions or Conditions

- The Corporation is currently exploring options to expand the use of Public-Private Partnerships (“PPP”) to operate its affordable rental housing projects. A PPP is a contractual arrangement between public and private sector entities that pools together and shares the skills and resources, as well as the risks and rewards, of each sector to achieve the common goal of delivering a public service. Through PPPs, the Corporation expects to achieve a more cost-efficient and effective means of not just developing, but also managing, maintaining, and operating affordable rental housing projects.

Requests for Information

This report is designed to provide an overview of the Corporation’s finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the Chief Financial Officer, Hawaii Housing Finance and Development Corporation, 677 Queen Street, Suite 300, Honolulu, Hawaii 96813.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
Assets and Deferred Outflows of Resources			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	$ 19,939	$ 173,809,273	$ 173,829,212
Cash in banks	316	2,645,519	2,645,835
Receivables			
Mortgage loans	-	1,612,519	1,612,519
Notes and loans	-	39,216,996	39,216,996
Accrued interest	-	19,171,987	19,171,987
Tenant receivables, less allowance for doubtful accounts of $480,298	-	134,585	134,585
Other receivables, less allowance for doubtful accounts of $135,591	-	2,352,866	2,352,866
	-	62,488,953	62,488,953
Cash held by third parties	-	172,989	172,989
Due from State	7,000,000	-	7,000,000
Due from other governments	40,784	-	40,784
Internal balances	(41,600)	41,600	-
Due from other State departments, net	-	1,939,956	1,939,956
Inventories – development in progress and dwelling units	-	11,359,279	11,359,279
Prepaid expenses and other assets	-	420,807	420,807
Deposits held in trust	-	25,130	25,130
Total current assets	7,019,439	252,903,506	259,922,945
Assets held by Trustees under revenue bond programs			
Cash and cash equivalents	-	67,536,395	67,536,395
Investments	-	96,533,248	96,533,248
	-	164,069,643	164,069,643
Other receivables	-	38,522	38,522
Due from other State departments	-	9,098,192	9,098,192
Investments	-	6,454,541	6,454,541
Mortgage loans, net of allowance for loan losses of $88,001	-	359,413,980	359,413,980
Notes and loans	9,861,610	99,748,955	109,610,565
Restricted deposits and funded reserves	-	473,509	473,509
Capital assets, net	-	96,256,015	96,256,015
Total assets	16,881,049	988,456,863	1,005,337,912
Deferred outflows of resources			
Deferred loss on refunding	-	587,875	587,875
Total deferred outflows of resources	-	587,875	587,875
Total assets and deferred outflows of resources	$ 16,881,049	$ 989,044,738	$ 1,005,925,787

The accompanying notes are an integral part of these financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Statement of Net Position
June 30, 2014

	Governmental Activities	Business-Type Activities	Total
Liabilities and Net Position			
Current liabilities			
Accounts payable	$ 19,439	$ 876,843	$ 896,282
Accrued expenses			
Interest	-	3,988,398	3,988,398
Other	-	928,600	928,600
Security deposits	-	2,554,341	2,554,341
Note payable	-	13,881	13,881
Mortgages payable	-	51,257	51,257
Unearned income	-	384,615	384,615
Revenue bonds payable, net	-	6,025,627	6,025,627
Total current liabilities	19,439	14,823,562	14,843,001
Noncurrent liabilities			
Arbitrage rebate payable	-	119,923	119,923
Note payable	-	168,450	168,450
Mortgages payable	-	5,297,729	5,297,729
Revenue bonds payable, net	-	331,745,660	331,745,660
Estimated future costs of development	-	35,272,218	35,272,218
Unearned income	-	22,100,326	22,100,326
Unrealized gain on sale of units and land	-	1,843,337	1,843,337
Postemployment liability	-	3,684,644	3,684,644
Total noncurrent liabilities	-	400,232,287	400,232,287
Total liabilities	19,439	415,055,849	415,075,288
Net position			
Net investment in capital assets	-	35,072,747	35,072,747
Restricted by legislation and contractual agreements	9,861,610	135,144,211	145,005,821
Unrestricted	7,000,000	403,771,931	410,771,931
Total net position	16,861,610	573,988,889	590,850,499
Total liabilities and net position	$ 16,881,049	$ 989,044,738	$ 1,005,925,787

The accompanying notes are an integral part of these financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Statement of Activities
Year Ended June 30, 2014

		Program Revenues		Net (Expense) Revenue and Changes in Net Position		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**
Governmental activities						
Low income housing service and assistance program	$ 5,397,261	$ -	$ 5,328,299	$ (68,962)	$ -	$ (68,962)
Total governmental activities	5,397,261	-	5,328,299	(68,962)	-	(68,962)
Business-type activities						
Rental assistance program	1,959,332	68,504	190,287	-	(1,700,541)	(1,700,541)
Housing development program	12,636,427	4,393,291	3,216,864	-	(5,026,272)	(5,026,272)
Multi-family mortgage loan program	5,241,345	29,932,498	198,993	-	24,890,146	24,890,146
Single-family mortgage loan program	5,103,150	3,138,647	787,588	-	(1,176,915)	(1,176,915)
Rental housing program	19,779,406	19,026,788	293,439	-	(459,179)	(459,179)
Others	1,661,267	2,123,244	-	-	461,977	461,977
Total business-type activities	46,380,927	58,682,972	4,687,171	-	16,989,216	16,989,216
Total	$ 51,778,188	$ 58,682,972	$ 10,015,470	(68,962)	16,989,216	16,920,254
General revenues						
State allotted appropriations, net of lapses				8,300,000	-	8,300,000
Net transfers				(8,300,000)	15,911,395	7,611,395
Total general revenues and transfers				-	15,911,395	15,911,395
Change in net position				(68,962)	32,900,611	32,831,649
Net position						
Beginning of year (restated)				16,930,572	541,088,278	558,018,850
End of year				$ 16,861,610	$ 573,988,889	$ 590,850,499

The accompanying notes are an integral part of these financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Governmental Funds
Balance Sheet
June 30, 2014

	HOME Investment Partnership Program	Neighborhood Stabilization Program Fund	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in cash and cash equivalents and investments in State Treasury	$ -	$ -	$ -	$ 19,939	$ 19,939
Cash in banks	115	201	-	-	316
Notes and loans receivable	-	-	-	9,861,610	9,861,610
Due from State	-	-	7,000,000	-	7,000,000
Due from other governments	40,687	-	-	97	40,784
Total assets	$ 40,802	$ 201	$ 7,000,000	$ 9,881,646	$ 16,922,649
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ -	$ -	$ -	$ 19,439	$ 19,439
Due to other funds	40,802	201	-	597	41,600
Total liabilities	40,802	201	-	20,036	61,039
Fund balances					
Restricted	-	-	-	9,861,610	9,861,610
Committed	-	-	7,000,000	-	7,000,000
Total fund balances	-	-	7,000,000	9,861,610	16,861,610
Total liabilities and fund balances	$ 40,802	$ 201	$ 7,000,000	$ 9,881,646	$ 16,922,649

The accompanying notes are an integral part of these financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2014

Total fund balances – governmental funds		$ 16,861,610
Amounts reported for governmental activities in the statement of net position are different because		
Capital assets used in governmental activities are not current financial resources and therefore not reported in the funds. These assets consist of the following		
Equipment	$ 567,704	
Accumulated depreciation	(567,704)	
Total capital assets		-
Net position of governmental activities		$ 16,861,610

The accompanying notes are an integral part of these financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Governmental Funds
Statement of Revenues, Expenditures and Change in Fund Balances
Year Ended June 30, 2014

	HOME Investment Partnership Program	Neighborhood Stabilization Program Fund	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
State allotted appropriations, net of lapses	$ -	$ -	$ 8,300,000	$ -	$ 8,300,000
Intergovernmental revenue	5,031,014	166,860	-	130,425	5,328,299
Total revenue	5,031,014	166,860	8,300,000	130,425	13,628,299
Expenditures					
Programs	4,907,492	132,367	-	118,034	5,157,893
Personnel services	96,591	25,500	-	10,419	132,510
Administration	26,476	1,696	-	1,972	30,144
Professional services	455	7,297	-	-	7,752
Total expenditures	5,031,014	166,860	-	130,425	5,328,299
Other financing uses					
Transfers out		-	(8,300,000)	-	(8,300,000)
Change in fund balances	-	-	-	-	-
Fund balances					
Beginning of year	-	-	7,000,000	9,861,610	16,861,610
End of year	$ -	$ -	$ 7,000,000	$ 9,861,610	$ 16,861,610

The accompanying notes are an integral part of these financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Governmental Funds
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Change in Fund Balances to the Statement of Activities
Year Ended June 30, 2014

Net change in fund balances – total governmental funds		$ -
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays during the year.		
Depreciation expense	$ (68,962)	
		(68,962)
Change in fund balances – governmental activities		$ (68,962)

The accompanying notes are an integral part of these financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Budgetary Comparison Statement – HOME Investment Partnership Program
Year Ended June 30, 2014

	Original and Final Budgets	Budgetary Actual
Revenues		
Intergovernmental revenue	$ 5,031,014	$ 5,031,014
Expenditures		
Programs	4,907,492	4,907,492
Personnel services	96,591	96,591
Administration	26,476	26,476
Professional services	455	455
Total expenditures	5,031,014	5,031,014
Excess of revenues over expenditures	$ -	-
Fund balance		
Beginning of year		-
End of year		$ -

The accompanying notes are an integral part of these financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Budgetary Comparison Statement – Neighborhood Stabilization Program Fund
Year Ended June 30, 2014

	Original and Final Budgets	Budgetary Actual
Revenues		
Intergovernmental revenue	$ 166,860	$ 166,860
Expenditures		
Programs	132,367	132,367
Personnel services	25,500	25,500
Administration	1,696	1,696
Professional services	7,297	7,297
Total expenditures	166,860	166,860
Excess of revenues over expenditures	$ -	-
Fund balances		
Beginning of year		-
End of year		$ -

The accompanying notes are an integral part of these financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Net Position
June 30, 2014

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Assets and Deferred Outflows of Resources							
Current assets							
Equity in cash and cash equivalents and investments in State Treasury	$ 79,031,935	$ 67,709,455	$ -	$ -	$ -	$ 27,067,883	$ 173,809,273
Cash in banks	-	343,692	2,246,208	-	-	55,619	2,645,519
Receivables							
Mortgage loans	364,814	-	-	300,078	947,627	-	1,612,519
Notes and loans	-	39,216,996	-	-	-	-	39,216,996
Accrued interest	5,574,838	11,056,795	-	412,821	1,138,139	989,394	19,171,987
Tenant receivables, less allowance for doubtful accounts of $480,298	-	79,649	-	-	-	54,936	134,585
Other receivables, less allowance for doubtful accounts of $135,591	218,977	2,036,187	-	-	97,687	15	2,352,866
Total receivables	6,158,629	52,389,627	-	712,899	2,183,453	1,044,345	62,488,953
Cash held by third parties	-	-	172,989	-	-	-	172,989
Due from other funds	-	658,939	-	-	1,793,919	1,561,778	4,014,636
Due from other State departments	-	2,907,009	-	-	-	-	2,907,009
Inventories – development in progress and dwelling units	-	11,359,279	-	-	-	-	11,359,279
Prepaid expenses and other assets	-	218,400	52,542	2,685	-	147,180	420,807
Deposits held in trust	-	25,130	-	-	-	-	25,130
Total current assets	85,190,564	135,611,531	2,471,739	715,584	3,977,372	29,876,805	257,843,595
Assets held by Trustees under revenue bond programs							
Cash and cash equivalents	-	-	29,398,941	14,443,013	23,694,441	-	67,536,395
Investments	-	-	-	94,133,247	2,400,001	-	96,533,248
	-	-	29,398,941	108,576,260	26,094,442	-	164,069,643
Other receivables	-	1,561	36,961	-	-	-	38,522
Due from other State departments	-	9,098,192	-	-	-	-	9,098,192
Investments	-	-	-	-	-	6,454,541	6,454,541
Mortgage loans, net of allowance for loan losses of $88,001	198,367,228	439,244	-	866,093	151,927,165	7,814,250	359,413,980
Notes and loans	-	99,748,955	-	-	-	-	99,748,955
Restricted deposits and funded reserves	-	-		-	-	473,509	473,509
Capital assets, net	-	37,198,516	55,115,597	-	-	3,941,902	96,256,015
Total assets	283,557,792	282,097,999	87,023,238	110,157,937	181,998,979	48,561,007	993,396,952
Deferred outflows of resources							
Deferred loss on refunding	-	-	516,603	71,272	-	-	587,875
Total deferred outflows of resources	-	-	516,603	71,272	-	-	587,875
Total assets and deferred outflows of resources	$ 283,557,792	$ 282,097,999	$ 87,539,841	$ 110,229,209	$ 181,998,979	$ 48,561,007	$ 993,984,827

The accompanying notes are an integral part of these financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Net Position
June 30, 2014

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Liabilities and Net Position							
Current liabilities							
Accounts payable	$ -	$ 15,220	$ 167,695	$ 34,797	$ 294,531	$ 364,600	$ 876,843
Accrued expenses							
Interest	-	-	2,021,172	829,087	1,138,139	-	3,988,398
Other	21,818	566,363	60,749	127,584	14,294	137,792	928,600
Due to other funds	54	45,523	578,005	322,626	-	3,026,828	3,973,036
Due to other State departments	-	957,053	-	-	-	10,000	967,053
Security deposits	-	104,452	1,199,171	-	-	1,250,718	2,554,341
Note payable	-	13,881	-	-	-	-	13,881
Mortgages payable	-	-	-	-	-	51,257	51,257
Unearned income	-	384,615	-	-	-	-	384,615
Revenue bonds payable	-	-	2,785,000	2,293,000	947,627	-	6,025,627
Total current liabilities	21,872	2,087,107	6,811,792	3,607,094	2,394,591	4,841,195	19,763,651
Noncurrent liabilities							
Arbitrage rebate payable	-	-	-	119,923	-	-	119,923
Note payable	-	168,450	-	-	-	-	168,450
Mortgages payable	-	-	-	-	-	5,297,729	5,297,729
Revenue bonds payable	-	-	82,782,495	71,236,000	177,727,165	-	331,745,660
Estimated future costs of development	-	35,272,218	-	-	-	-	35,272,218
Unearned income	-	22,100,326	-	-	-	-	22,100,326
Unrealized gain on sale of units and land	-	1,843,337	-	-	-	-	1,843,337
Postemployment liability	79,734	2,248,468	225,376	530,731	94,601	505,734	3,684,644
Total noncurrent liabilities	79,734	61,632,799	83,007,871	71,886,654	177,821,766	5,803,463	400,232,287
Total liabilities	101,606	63,719,906	89,819,663	75,493,748	180,216,357	10,644,658	419,995,938
Commitments and contingencies							
Net position							
Net investment in capital assets	-	37,016,185	(536,354)	-	-	(1,407,084)	35,072,747
Restricted by legislation and contractual agreements	-	-	-	108,576,260	26,094,442	473,509	135,144,211
Unrestricted	283,456,186	181,361,908	(1,743,468)	(73,840,799)	(24,311,820)	38,849,924	403,771,931
Total net position	283,456,186	218,378,093	(2,279,822)	34,735,461	1,782,622	37,916,349	573,988,889
Total liabilities and net position	$ 283,557,792	$ 282,097,999	$ 87,539,841	$ 110,229,209	$ 181,998,979	$ 48,561,007	$ 993,984,827

The accompanying notes are an integral part of these financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Revenues, Expenses and Change in Net Position
Year Ended June 30, 2014

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Operating revenues							
Conveyance tax	$ 22,764,536	$ -	$ -	$ -	$ -	$ -	$ 22,764,536
Rental	-	2,148,512	17,607,345	-	-	583,460	20,339,317
Interest on mortgages, notes, loans and mortgage-backed securities	1,703,868	1,810,089	-	3,136,789	4,890,591	104,974	11,646,311
Net decrease in fair value of mortgage-backed securities	-	-	-	(1,387,050)	-	-	(1,387,050)
Gain on sale of land, net	-	1,201,443	-	-	-	-	1,201,443
Other	149,900	1,043,336	842,127	352	423,603	2,085,949	4,545,267
Total operating revenues	24,618,304	6,203,380	18,449,472	1,750,091	5,314,194	2,774,383	59,109,824
Operating expenses							
Interest expense	-	-	4,060,277	2,331,890	4,940,593	-	11,332,760
Programs	-	1,652,868	8,349,012	-	-	-	10,001,880
Provision for (recovery of) losses	-	6,428,937	28,333	-	-	(92,113)	6,365,157
Personnel services	96,783	2,914,382	310,367	599,203	110,543	1,618,567	5,649,845
Depreciation	-	199,449	5,156,522	-	-	157,340	5,513,311
Housing assistance payments	-	-	-	458,465	-	1,814,569	2,273,034
Administration	39,003	973,595	227,152	279,137	19,036	390,764	1,928,687
Professional services	19,075	361,570	52,423	36,948	13,988	45,076	529,080
Capital expenses	1,420	61,692	306,166	2,639	314	31,750	403,981
Insurance	-	24,256	135,845	2,791	-	82,662	245,554
Utilities	-	-	-	1,528	-	117,992	119,520
Repairs and maintenance	583	8,822	19,829	-	7	73,739	102,980
Other	-	10,856	70,472	38,280	-	25	119,633
Total operating expenses	156,864	12,636,427	18,716,398	3,750,881	5,084,481	4,240,371	44,585,422
Operating income (loss) carried forward	24,461,440	(6,433,047)	(266,926)	(2,000,790)	229,713	(1,465,988)	14,524,402

The accompanying notes are an integral part of these financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Revenues, Expenses and Change in Net Position
Year Ended June 30, 2014

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Operating income (loss) brought forward	24,461,440	(6,433,047)	(266,926)	(2,000,790)	229,713	(1,465,988)	14,524,402
Nonoperating revenues (expenses)							
Interest income	198,993	1,406,775	37,638	787,588	-	701,230	3,132,224
Net decrease in fair value of other investments	-	-	-	-	-	(254,953)	(254,953)
Interest expense	-	-	-	-	-	(361,615)	(361,615)
Amortization of deferred loss on refunding	-	-	(47,758)	-	-	-	(47,758)
Arbitrage rebate	-	-	-	35,039	-	-	35,039
Other expenses	-	-	(33,600)	-	-	(4,523)	(38,123)
Total nonoperating revenues (expenses)	198,993	1,406,775	(43,720)	822,627	-	80,139	2,464,814
Income (loss) before transfers	24,660,433	(5,026,272)	(310,646)	(1,178,163)	229,713	(1,385,849)	16,989,216
Transfers in	-	11,213,025	-	-	-	4,698,370	15,911,395
Change in net position	24,660,433	6,186,753	(310,646)	(1,178,163)	229,713	3,312,521	32,900,611
Net position							
Beginning of year (restated)	258,795,753	212,191,340	(1,969,176)	35,913,624	1,552,909	34,603,828	541,088,278
End of year	$ 283,456,186	$ 218,378,093	$ (2,279,822)	$ 34,735,461	$ 1,782,622	$ 37,916,349	$ 573,988,889

The accompanying notes are an integral part of these financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2014

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Cash flows from operating activities							
Cash received from tenants	$ -	$ 1,760,757	$ 17,696,310	$ -	$ -	$ 724,708	$ 20,181,775
Cash received from borrowers							
Principal repayments	1,363,904	5,066,436	-	483,358	81,237,656	73,409	88,224,763
Interest income	807,137	2,474,588	-	3,259,939	4,920,112	53,496	11,515,272
Cash received from sale of units and land	-	2,267,514	-	-	-	-	2,267,514
Cash received from conveyance taxes	22,545,559	-	-	-	-	-	22,545,559
Cash received for payments on mortgage-backed securities, net	-	-	-	(14,007,477)	-	-	(14,007,477)
Cash payments for issuance of loans receivable	(8,412,415)	(29,871,579)	-	-	(48,423,144)	(4,698,370)	(91,405,508)
Interest payments	-	-	(4,113,813)	(2,426,578)	(4,985,163)	-	(11,525,554)
Payments to employees	(91,975)	(2,914,382)	(310,367)	(599,203)	(110,543)	(1,618,567)	(5,645,037)
Payments to suppliers	(60,081)	(3,374,227)	(8,556,758)	(348,784)	264,475	(2,503,400)	(14,578,775)
Cash receipts from (payments to) other funds	-	1,447,765	(17,595)	(167,057)	(317,696)	483,240	1,428,657
Other cash receipts (payments)	150,005	1,069,577	936,881	(468,461)	513,894	2,087,674	4,289,570
Net cash provided by (used in) operating activities	16,302,134	(22,073,551)	5,634,658	(14,274,263)	33,099,591	(5,397,810)	13,290,759
Cash flows from noncapital financing activities							
Principal paid on revenue bond maturities and redemptions	-	-	-	(15,318,000)	-	-	(15,318,000)
Transfers in	-	1,151,054	-	-	-	4,697,367	5,848,421
Net cash provided by (used in) noncapital financing activities	-	1,151,054	-	(15,318,000)	-	4,697,367	(9,469,579)
Subtotal carried forward	16,302,134	(20,922,497)	5,634,658	(29,592,263)	33,099,591	(700,443)	3,821,180

The accompanying notes are an integral part of these financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2014

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Subtotal brought forward	16,302,134	(20,922,497)	5,634,658	(29,592,263)	33,099,591	(700,443)	3,821,180
Cash flows from capital and related financing activities							
Principal paid on revenue bond maturities and redemptions	-	-	(2,682,805)	-	(83,987,656)	-	(86,670,461)
Proceeds from new bond issuance	-	-	-	-	48,423,144	-	48,423,144
Principal paid on mortgage loans and notes payable	-	(13,881)	-	-	-	(34,413)	(48,294)
Interest payments	-	-	-	-	-	(100,659)	(100,659)
Purchase of capital assets	-	-	(79,150)	-	-	(24,633)	(103,783)
Net cash used in capital and related financing activities	-	(13,881)	(2,761,955)	-	(35,564,512)	(159,705)	(38,500,053)
Cash flows from investing activities							
Purchase of investments	-	-	-	(1,557,977)	(710,449)	-	(2,268,426)
Proceeds from maturities of investments	-	-	-	6,086,065	23,694,440	-	29,780,505
Interest received	198,993	905,514	-	787,588	-	437,984	2,330,079
Change in fair value of equity in cash and cash equivalents and investments in State Treasury	-	501,261	-	-	-	-	501,261
Net cash provided by investing activities	198,993	1,406,775	-	5,315,676	22,983,991	437,984	30,343,419
Net increase (decrease) in cash and cash equivalents	16,501,127	(19,529,603)	2,872,703	(24,276,587)	20,519,070	(422,164)	(4,335,454)
Cash and cash equivalents							
Beginning of year	62,530,808	87,607,880	28,772,446	38,719,600	3,175,371	28,019,175	248,825,280
End of year	$ 79,031,935	$ 68,078,277	$ 31,645,149	$ 14,443,013	$ 23,694,441	$ 27,597,011	$ 244,489,826
Components of cash and cash equivalents							
Equity in cash and cash equivalents and investments in State Treasury	$ 79,031,935	$ 67,709,455	$ -	$ -	$ -	$ 27,067,883	$ 173,809,273
Cash in banks	-	343,692	2,246,208	-	-	55,619	2,645,519
Cash and cash equivalents held by Trustee	-	-	29,398,941	14,443,013	23,694,441	-	67,536,395
Deposits held in trust	-	25,130	-	-	-	-	25,130
Restricted deposits and funded reserves	-	-	-	-	-	473,509	473,509
Cash and cash equivalents	$ 79,031,935	$ 68,078,277	$ 31,645,149	$ 14,443,013	$ 23,694,441	$ 27,597,011	$ 244,489,826

The accompanying notes are an integral part of these financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2014

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Cash flows from operating activities							
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities							
Operating income (loss)	$ 24,461,440	$ (6,433,047)	$ (266,926)	$ (2,000,790)	$ 229,713	$ (1,465,988)	$ 14,524,402
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities							
Net decrease in fair value of mortgage-backed securities	-	-	-	1,387,050	-	-	1,387,050
Depreciation	-	199,449	5,156,522	-	-	157,340	5,513,311
Provision for (recovery of) losses	-	6,428,937	28,333	-	-	(92,113)	6,365,157
Gain on sale of assets	-	209,239	-	-	-	-	209,239
Other receipts	-	-	125,601	-	-	-	125,601
Changes in assets and liabilities							
Mortgage loans receivable	(7,048,511)	17,481	-	483,358	32,814,512	(4,623,647)	21,643,193
Notes and loans receivable	-	(21,887,728)	-	-	-	-	(21,887,728)
Accrued interest receivable	(896,731)	(2,270,397)	-	123,150	29,521	(52,792)	(3,067,249)
Tenant receivables	-	(28,808)	49,799	-	-	(34,579)	(13,588)
Other receivables	(218,977)	37,109	-	-	90,291	2,075	(89,502)
Cash held by third parties	-	-	358,505	-	-	-	358,505
Due from other funds	-	(45,500)	-	-	(317,696)	152,154	(211,042)
Due from other State departments	-	1,493,265	-	-	-	-	1,493,265
Inventories – development in progress and dwelling units	-	406,524	-	-	-	-	406,524
Prepaid expenses and other assets	-	-	1,728	2,791	-	(8,666)	(4,147)
Investments	-	-	-	(14,007,477)	-	-	(14,007,477)
Deferred loss on refunding	-	-	-	91,131	-	-	91,131
Accounts payable	-	(18,022)	156,378	7,503	294,531	(31,649)	408,741
Accrued interest payable	-	-	(53,536)	(185,819)	(44,570)	-	(283,925)
Other accrued expenses	4,808	239,281	56,683	(8,103)	3,289	96,723	392,681
Due to other funds	105	-	(17,595)	(167,057)	-	331,086	146,539
Security deposits	-	26,633	39,166	-	-	172,246	238,045
Unearned income	-	(385,580)	-	-	-	-	(385,580)
Unrealized gain on sale of units and land	-	(62,387)	-	-	-	-	(62,387)
Net cash provided by (used in) operating activities	$ 16,302,134	$ (22,073,551)	$ 5,634,658	$ (14,274,263)	$ 33,099,591	$ (5,397,810)	$ 13,290,759

The accompanying notes are an integral part of these financial statements.

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

Chapter 201E, Hawaii Revised Statutes and Act 337, Session Laws of Hawaii (“SLH”) 1987, created the Housing Finance and Development Corporation (“HFDC”). The HFDC was created to perform housing finance, housing development and residential leasehold functions. The Hawaii Housing Authority, State of Hawai‘i (“Authority”) was organized pursuant to the provisions of Chapter 356, Hawaii Revised Statutes. The Authority was created to provide safe and sanitary dwelling accommodations for low and moderate-income residents of Hawai‘i.

In accordance with Act 350, SLH 1997, effective July 1, 1998, the functions and employees of HFDC as well as those of the Authority and the Rental Housing Trust Fund Commission were transferred to the newly created Housing and Community Development Corporation of Hawaii (“HCDCH”). The purpose of Act 350, SLH 1997, was to consolidate all state housing functions previously administered by the Authority, HFDC and the Rental Housing Trust Fund Commission. HCDCH was a public body, both corporate and politic, and was for administrative purposes considered to be a part of the State Department of Business, Economic Development and Tourism. In accordance with Act 92, SLH 2003, effective July 1, 2003, the functions and employees of HCDCH were transferred to the State Department of Human Services for administrative purposes.

In accordance with Act 196, SLH 2005, as amended by Act 180, SLH 2006, HCDCH was split into two organizations to more effectively concentrate on the development of affordable housing. Effective July 1, 2006, HCDCH was bifurcated into (1) the Hawaii Public Housing Authority (“HPHA”) and (2) the Hawaii Housing Finance and Development Corporation (the “Corporation”).

For financial reporting purposes, the Corporation includes all funds that are controlled by or dependent on the Corporation’s Board of Directors. Control by or dependence on the Corporation was determined on the basis of statutory authority and monies flowing through the Corporation to each fund.

The financial statements of the Corporation include only the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Corporation, and are not intended to present fairly the financial position of the State of Hawai‘i (the “State”) as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Corporation’s financial activities.

Government-Wide and Fund Financial Statements

The government-wide financial statements, the statement of net position and the statement of activities report information of the non-fiduciary activities of the Corporation. Governmental activities, which normally are supported by State allotments and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated

internally are reported as general revenues rather than program revenues. The Corporation employs an indirect cost allocation system. The Corporation provides certain administrative services to its various funds. The cost of these services is allocated to the funds based on estimates of benefits provided to the funds.

Net position is restricted when constraints placed on it are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restrictions of net position. When both restricted and unrestricted resources are available for use, generally it is the Corporation’s policy to use restricted resources first, then unrestricted resources as they are needed.

The fund financial statements are provided for governmental and proprietary funds. Major individual governmental fund and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are summarized into a single column.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. In applying the susceptible to accrual concept to intergovernmental revenues, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when applicable requirements, including timing requirements, are met.

Principal revenue sources considered susceptible to accrual include federal grants and interest on investments. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State’s present appropriation system. These revenues have been accrued in accordance with generally accepted accounting principles since they have been earned and are expected to be collected within 60 days of the end of the period. Other revenues are considered to be measurable and available only when cash is received by the Corporation.

Expenditures generally are recorded when a liability is incurred. Modifications to the accrual basis of accounting include employees’ vested vacation, which is recorded as an expenditure when utilized or paid. The amount of unmatured long-term indebtedness related to accumulated vacation at June 30, 2014 has been reported in the government-wide financial statements.

Proprietary Funds

The financial statements of proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the Corporation's enterprise funds are interest income, rental income, land sales and conveyance tax revenues. Interest income from investments is reported as nonoperating income.

Fund Accounting
The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Corporation uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, sets forth minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

Governmental Funds

- **HOME Investment Partnership Program** – The HOME Investment Partnership Program is used to account for all financial activities that are funded by the related federal grants. Substantially all of the fund's activity relates to providing affordable housing to residents of the State of Hawai‘i.

- **National Foreclosure Mitigation Counseling Program Fund** – The National Foreclosure Mitigation Counseling Program Fund is used to account for all financial activities funded by the related federal grant. Substantially all of the fund's activity relates to providing foreclosure intervention counseling and legal assistance.

- **General Obligation Bond Fund** – The General Obligation Bond Fund is used to account for the transfers of the proceeds of the State's general obligation bonds allotted to the Corporation for subsequent use by the Corporation's other funds.

- **Neighborhood Stabilization Program Fund** – The Neighborhood Stabilization Program ("NSP") Fund is used to account for all financial activities funded by the related federal grant. Substantially all of the fund's activity relates to providing targeted emergency assistance to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight.

- **Tax Credit Assistance Program Fund** – The Tax Credit Assistance Program ("TCAP") Fund is used to account for all financial activities funded by the related federal grant. Substantially all of the fund's activities relate to providing funds directly to designated state housing credit agencies for award to affordable rental housing developments that have been allocated low income housing tax credits and are in need of additional gap equity funding.

- **Emergency Homeowners' Loan Program** – The Emergency Homeowners' Loan Program ("EHLP") Fund is used to account for all financial activities funded by the related federal grant. Substantially all of the fund's activities relate to providing emergency loans to homeowners who have suffered a loss of income that places them in jeopardy of foreclosure of their homes.

Proprietary Funds

- **Enterprise Funds** – These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to customers, or where sound financial management dictates that periodic determinations of results of operations are appropriate. Enterprise funds include the Rental Housing Trust Fund, the Dwelling Unit Revolving Fund, revenue bond funds and other funds.

  Under the revenue bond funds, proceeds from bond issues are used to make below-market interest rate mortgage loans to persons and families of low to moderate income for the purchase of owner-occupied single-family and condominium dwellings; provide interim construction loans and permanent financing of affordable rental housing projects; and to finance multifamily housing projects. These funds include the Hawaii Rental Housing System Revenue Bond Fund, the Single Family Mortgage Purchase Revenue Bond Fund, the Multifamily Housing Revenue Bond Fund, and the University of Hawai‘i Faculty Housing Program Revenue Bond Fund.

  The other funds include the Fee Simple Residential Revolving Fund, Rental Assistance Revolving Fund, Housing Finance Revolving Fund, Kekuilani Gardens Project Fund, Disbursing Fund, Hamakua Fund and Waialua Fund.

  The Corporation reports the following as major proprietary funds:

  - Rental Housing Trust Fund provides developers of qualified rental housing projects with loans and/or grants for the development, predevelopment, construction, acquisition, preservation and rehabilitation of rental housing units.

  - Dwelling Unit Revolving Fund accounts for state funds used for acquiring, developing, selling, leasing and renting residential, commercial and industrial properties, providing mortgage and interim financing, rental income, sales proceeds and interest earnings from the financing and investment of such funds.

  - Hawaii Rental Housing System Revenue Bond Fund accounts for special funds to account for housing projects or systems of housing projects financed from the proceeds of bonds secured under the same trust indenture. The fund accounts for six multifamily rental housing projects located throughout the State of Hawai‘i.

  - Single Family Mortgage Purchase Revenue Bond Fund accounts for the proceeds from the issuance of bonds used to make below-market interest rate mortgage loans and the repayment, interest, and earnings from such loans and investment of such funds.

  - Multifamily Housing Revenue Bond Fund accounts for the proceeds from the issuance of bonds to provide interim construction loans and/or permanent financing to facilitate the construction or rehabilitation of affordable rental housing projects.

Equity in Cash and Cash Equivalents and Investments in State Treasury
The State Director of Finance is responsible for the safekeeping of cash and investments in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State, which in the Director's judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that depository banks pledge as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the Corporation. However, as these funds are held in the State cash pool, the Corporation does not manage these investments and the types of investments and related interest rate, credit and custodial risks are not determinable at the Corporation's level. The risk disclosures of the State's cash pool are included in the State's Comprehensive Annual Financial Report ("CAFR") which may be obtained from the Department of Accounting and General Services' ("DAGS") website: http://hawaii.gov/dags/rpts.

Cash and short-term investments held outside of the State Treasury are primarily held in a financial institution outside of the State of Hawai‘i.

Cash and cash equivalents for the purpose of the statement of cash flows include all cash and investments with original purchased maturities of three months or less. Cash and cash equivalents also include the Corporation's equity in cash and cash equivalents and investments held in the State Treasury.

Investments
Investments in U.S. government securities and certificates of deposit with maturities of one year or less when purchased are stated at cost, which approximates fair market value. Non-participating investment contracts, generally repurchase agreements, are reported at cost, which approximates fair market value. All other investments are reported at fair market value.

Inventories
Inventories consist of developments in progress and units available for sale. Developments in progress include construction in progress and land held for future development related to the remaining portions of two master planned community projects – Kapolei (Oahu) and La‘i‘opua (Hawai‘i). Costs included in developments in progress relate to the infrastructure construction for these master planned communities. Units available for sale include constructed units, developed lots and repurchased units available for sale.

Inventories are stated at the lower of cost or estimated net realizable value. All estimated development, holding and disposition costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Estimated net realizable value represents management's estimates, based on management's plans and intentions, of sales price less development, holding and disposition costs, assuming that the development and disposition occurs in the normal course of business. Write-downs for estimated losses on inventories are recorded to the extent total estimated costs exceed total estimated revenues for a project.

The recognition of gain from the sale of units is dependent on a number of factors relating to the nature of the property sold, the terms of the sale and the future involvement of the Corporation in the property sold. If a real estate transaction does not meet established financial criteria, profit recognition is deferred and recognized under the installment or cost recovery method until such time as the criteria are met.

Receivables
Receivable balances are composed of mortgage loans receivable and tenant receivables from the various projects and funds within the Corporation. Mortgage loans receivable are primarily second mortgages from nonprofit organizations and for-profit developers for the development, pre-development, construction, acquisition, preservation and substantial rehabilitation of rental housing units. Receivable amounts from tenants are related to rental arrangements. Allowances on receivables are typically established for any accounts over 90 days outstanding. For the year ended June 30, 2014, there were allowances for mortgage loan receivables and total tenant receivables of $88,000 and $480,000, respectively.

Interfund Receivables and Payables
During the course of operations, transactions occur between funds that may result in amounts owed between funds. Those related to transactions for goods and services are classified as “due to and from other funds.” Interfund receivables and payables between funds (noncurrent portion) are reported as “advances from and to other funds.” See Note 16 for details of interfund transactions, including receivables and payables at year end.

Capital Assets
Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements and proprietary funds financial statements. The capitalization thresholds are $5,000 for equipment, and $100,000 for land improvements, building and building improvements.

Purchased and constructed capital assets are valued at cost. Donated assets are recorded at their fair value at the date of donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements.

Depreciation expense is recorded in the government-wide and proprietary funds financial statements utilizing the straight-line method over the assets’ estimated useful lives. No depreciation is recorded for land and land improvements. Generally, the useful lives are as follows:

	Governmental Activities	Proprietary Funds and Business Type Activities
Building and building improvements	25 years	10–40 years
Equipment	7 years	1–10 years

Unearned Revenues
Unearned revenues at the fund level and government-wide level arise when the Corporation receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Corporation has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and revenue is recognized.

Accrued Vacation
Employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Liabilities for accumulated unpaid vacation are accrued at the end of each accounting period utilizing current salary rates. Such vacation credits are recorded as accrued wages and employee benefits payable in the government-wide and the proprietary funds financial statements at the balance sheet date. Accumulated unpaid vacation estimated to be used or paid during the next year is approximately $234,000. Accrued vacation, which is included in other accrued expenses in the statement of net position, changed during 2014 as follows:

Balance July 1, 2013	$ 707,877
Additions	267,969
Reductions	(356,866)
Balance at June 30, 2014	$ 618,980

Accumulated Sick Leave Pay
Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limitation. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees’ Retirement System of the State of Hawai‘i (“ERS”). Accumulated sick leave at June 30, 2014 amounted to approximately $1,834,000.

Post Retirement Health Care and Life Insurance Benefits
The Corporation accounts for its post-retirement health care and life insurance benefits in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards of accounting and financial reporting for other postemployment benefit (“OPEB”) expenses, liabilities or assets.

Risk Management
Liabilities related to certain types of losses (including torts, theft of, damage to, or destruction of assets, errors or omissions, natural disasters and injuries to employees) are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

Governmental Fund Balances
The Corporation accounts for governmental fund balances in accordance with GASB Statement No. 54 (“GASB 54”), *Fund Balance Reporting and Governmental Fund Type Definitions*. The GASB 54 hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include:

- **Restricted** – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

- **Committed** – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the State legislature and the Corporation’s Board of Directors.

- **Assigned** – Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.

- **Unassigned** – Residual balances that are not contained in the other classifications.

The fund balance of the TCAP fund was restricted for use in the construction of qualified low-income buildings for which a housing credit agency has made an allocation of low-income housing credits under Section 42 of the Internal Revenue Code.

The fund balance of the General Obligation Bond fund was committed to purchase land for the development of an affordable rental housing complex.

Deficit Balances
The Hawaii Rental Housing System Revenue Bond Fund and the Kekuilani Gardens Project Fund have a net deficit as of June 30, 2014. Planned rental increases at all properties within the Hawaii Rental Housing System are expected to aid the fund in eliminating the deficit. Rental increases at the Kekuilani Gardens Project, effective July 1, 2011, are expected to assist the project in eliminating the deficit.

Use of Estimates
In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements
In 2014, the Corporation adopted GASB Statement No.65, *Items Previously Reported as Assets and Liabilities*. This Statement provides financial reporting guidance for proper classification and recognition of previously reported assets and liabilities as deferred inflows or deferred outflows of resources. Management has adopted the new standard in the Corporation’s financial statements. Refer to Note 17 which reflects the impact to the Corporation’s financial statements.

The GASB issued Statement No. 66, *Technical Corrections – 2012*. The objective of this Statement is to enhance usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The requirements of this Statement are effective for reporting periods beginning after December 15, 2012. This Statement did not have a material effect on the Corporation’s financial statements.

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions.* The Statement revises and established new financial reporting requirements for most governments that provide their employees with pension benefits. The requirements of this statement are effective for reporting periods beginning after June 15, 2014. Management has not yet determined the effect this statement will have on the Corporation's financial statements.

The GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a state or local government. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. This Statement did not have a material effect on the Corporation's financial statements.

The GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The Statement amends and addresses an issue regarding application of the transition provisions of GASB Statement No. 68. The requirements of this Statement are effective for reporting periods beginning after June 15, 2014. Management has not yet determined the effect this statement will have on the Corporation's financial statements.

Reclassifications
Certain balances in the 2013 financial statements have been reclassified to conform to the 2014 presentation. These reclassifications had no impact on the change in net position as previously reported.

2. Budgeting and Budgetary Control

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the budgetary comparison statements are those estimates as compiled and reviewed by the State of Hawai‘i, Department of Budget and Finance.

Budgeted expenditures are derived primarily from the General Appropriations Act of 2005 (Act 178, Session Laws of Hawaii ("SLH") 2005), and from other authorizations contained in the State Constitution, Hawaii Revised Statutes, and other specific appropriation acts in various SLH.

All expenditures of these appropriated funds are made pursuant to the appropriations in the fiscal 2013 – 2014 biennial budget. The Neighborhood Stabilization Program Fund and HOME Investment Partnership Program have legally appropriated annual budgets.

The final legally adopted budget in the accompanying budgetary comparison statements represents the original appropriation, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program and source of funds as established in the appropriations act. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Corporation. During the fiscal year ended June 30, 2014, there were no expenditures in excess of available appropriations at the legal level of budgetary control.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse date and any other contingencies which may terminate the authorizations for other appropriations.

The Corporation's annual budget is prepared on the budgetary basis of accounting with several differences from the preparation of the statement of revenues, expenditures and change in fund balances under generally accepted accounting principles ("GAAP"), principally related to (1) encumbrance of purchase orders and contract obligations, (2) accrued revenues and expenditures, and (3) unbudgeted programs (federal award programs). However, for the year ended June 30, 2014, there were no differences between the budgetary amounts and the amounts presented in accordance with GAAP.

3. Deposits

At June 30, 2014, total cash and cash equivalents reported in the statement of net position consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Equity in cash and cash equivalents and investments in State Treasury	$ 19,939	$ 173,809,273	$ 173,829,212
Cash in banks (book balance)	316	2,645,519	2,645,835
Deposits held in trust	-	25,130	25,130
Cash and cash equivalents held by Trustee	-	67,536,395	67,536,395
Restricted deposits and funded reserves	-	473,509	473,509
Total cash	$ 20,255	$ 244,489,826	$ 244,510,081

The bank balance of cash in bank was approximately $2,489,000, of which $364,000 was covered by federal depositary insurance and $2,125,000 was not covered.

4. Investments

Investments at June 30, 2014 are summarized by maturity (in years) as follows:

	Less than 1	Greater than 1 and up to 5	Greater than 5 and up to 10	Greater than 10 and up to 20	Greater than 20	Fair Value
Mortgage-backed securities	$ -	$ 6,510,088	$ 389,672	$ 37,143,897	$ 51,235,971	$ 95,279,628
Repurchase agreements	-	-	5,308,160	-	-	5,308,160
Municipal bonds	-	2,400,001	-	-	-	2,400,001
Total investments	$ -	$ 8,910,089	$ 5,697,832	$ 37,143,897	$ 51,235,971	$ 102,987,789

Investments summarized in the table above are reflected in the statement of net position as follows:

Investments held by trustees under revenue bond programs	$ 96,533,248
Investments – noncurrent	6,454,541
Total investments	$ 102,987,789

- **Interest Rate Risk** – The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

- **Credit Risk** – The revenue bond funds' trust indentures authorize the trustees to invest in certificates of deposit, money market funds, U.S. government or agency obligations, and repurchase agreements. The Corporation has no investment policy that would further limit its investment decisions. As of June 30, 2014, Federal National Mortgage Association ("FNMA") mortgage-backed securities were rated Aaa, AAA, and AA+ by Moody's, Fitch, and Standard & Poor's, respectively. The Fund's investments in repurchase agreements and money market funds are not rated. U.S. Treasury securities and securities of the Government National Mortgage Association are not considered to have credit risk exposure.

- **Concentration of Credit Risk** – The Corporation has no limit on the amount the Corporation may invest in any one issuer. As of June 30, 2014, the Corporation's investments were primarily with the Federal National Mortgage Association, and Societe Generale. These investments are 89% and 5%, respectively, of the Corporation's total investments.

- **Custodial Risk** – For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Corporation's investments that are uninsured and unregistered are held by the Corporation's trust agent in the Corporation's name. The repurchase agreements are collateralized with securities held by the pledging financial institution's collateral agent but not in the Corporation's name. The underlying securities for repurchase agreements are required to be U.S. government or agency obligations of an equal or greater market value. The Corporation monitors the market value of these securities and obtains additional collateral when appropriate.

5. Mortgage Loans and Notes and Loans Receivable

Mortgage loans and notes and loans receivable at June 30, 2014 comprised the following:

	Mortgage Loans	Notes and Loans
Mortgage loans bearing interest up to 11%, maturing at various dates through 2075	$ 361,114,500	$ -
Promissory notes bearing interest up to 4.72%, maturing in 2065	-	99,748,955
Promissory notes bearing interest up to 5%, maturing in fiscal 2015	-	39,216,996
Non-interest bearing promissory notes, maturing at various dates through 2056	-	9,861,610
Allowance for loan losses	(88,001)	-
	361,026,499	148,827,561
Less: Current portion	(1,612,519)	(39,216,996)
Noncurrent portion	$ 359,413,980	$ 109,610,565

Mortgage and development loans are collateralized by real property. The revenue bond funds' mortgage loans are also subject to primary mortgage and mortgage pool insurance coverage that, subject to aggregate loss limitations, reimburses the Corporation for all losses incurred, if any, from the disposition of real property acquired through foreclosure.

The promissory notes are collateralized by a second mortgage on the improvements of Kukui Gardens (see Note 13). The non-interest bearing notes are collateralized by real property.

6. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance at July 1, 2013	Additions	Disposals	Balance at June 30, 2014
Governmental activities				
Depreciable assets				
Equipment	$ 567,704	$ -	$ -	$ 567,704
Accumulated depreciation				
Equipment	(498,742)	(68,962)	-	(567,704)
Governmental activities capital assets, net	$ 68,962	$ (68,962)	$ -	$ -
Business-type activities				
Depreciable assets				
Building and improvements	$ 155,459,454	$ 10,284,002	$ (274,070)	$ 165,469,386
Equipment	2,497,171	115,819	(12,038)	2,600,952
	157,956,625	10,399,821	(286,108)	168,070,338
Accumulated depreciation				
Building and improvements	(107,487,318)	(5,435,461)	42,354	(112,880,425)
Equipment	(2,087,048)	(77,850)	-	(2,164,898)
	(109,574,366)	(5,513,311)	42,354	(115,045,323)
	48,382,259	4,886,510	(243,754)	53,025,015
Land	43,289,546	78,181	(136,727)	43,231,000
Business-type activities capital assets, net	$ 91,671,805	$ 4,964,691	$ (380,481)	$ 96,256,015

Depreciation expense for the year ended June 30, 2014 was charged to functions as follows:

Governmental activities	
Low income housing service and assistance	$ 68,962
Business-type activities	
Housing development program	$ 356,786
Rental housing program	5,156,525
Total depreciation expense – business-type activities	$ 5,513,311

At June 30, 2014, capital assets for the proprietary funds consisted of the following:

	Revenue Bond Funds	Dwelling Unit Revolving Fund	Other Funds	Total
Buildings and improvements	$ 142,388,323	$ 17,658,310	$ 5,422,753	$ 165,469,386
Equipment	2,273,449	204,257	123,246	2,600,952
	144,661,772	17,862,567	5,545,999	168,070,338
Less: Accumulated depreciation	(105,733,025)	(6,635,701)	(2,676,597)	(115,045,323)
	38,928,747	11,226,866	2,869,402	53,025,015
Land	16,186,850	25,971,650	1,072,500	43,231,000
Net capital assets	$ 55,115,597	$ 37,198,516	$ 3,941,902	$ 96,256,015

7. Revenue Bond Funds – Reserve Requirements

Under the trust indentures between the Corporation and the trustees for the Single Family Mortgage Purchase Revenue Bonds, investment assets and cash are required to be held by the trustees in various accounts and funds, including debt service reserve accounts, loan funds and mortgage loan reserve funds. The uses of these assets are restricted by the terms of the indentures.

At June 30, 2014, the following debt service reserves and mortgage loan reserves were required by the indentures under Revenue Bond Programs in the Single Family Mortgage Purchase Revenue Bond Fund.

Debt service reserve requirements	$ 7,353,000
Mortgage loan reserve requirements	1,128,000
	$ 8,481,000

At June 30, 2014, approximately $10,629,000 and $24,969,000 of investment securities, at cost, were being held in the debt service reserve funds and mortgage loan reserve funds, respectively, and are included in assets held by trustees in the statement of net position.

Under the trust indenture agreement between the Corporation and the trustee for the Hawaii Rental Housing System Revenue Bond Fund, the Corporation is required to provide net revenues (as defined in the trust indenture agreement) together with lawfully available funds of at least 1.25 times the aggregate debt service on outstanding bonds during the bond year. Additionally, the Corporation is to provide net revenues (as defined in the trust indenture agreement) of at least 1.10 times the aggregate debt service on outstanding bonds during the bond year. At June 30, 2014, the Hawaii Rental Housing System Revenue Bond Fund provided net revenues (as defined in the trust indenture agreement) together with lawfully available funds of 4.87 times the aggregate debt service on outstanding bonds during the year and net revenues (as defined in the trust indenture agreement) of 1.32 times the aggregate debt service on outstanding bonds during the year.

The trust indenture agreement also requires that the mortgage loan reserves for these Revenue Bond Funds be funded from other than bond proceeds and, accordingly, the reserves have been funded by commitment fees at June 30, 2014.

8. Mortgage and Note Payable

The Kekuilani Gardens Project (“Kekuilani”) entered into a mortgage agreement in December 1996 in the amount of $5,213,614 with the U.S. Department of Agriculture (“USDA”) Farmers Home Administration, now known as the USDA – Rural Development (“RD”). The mortgage loan bears annual interest at 7.25% and is collateralized by the Kekuilani Gardens Project. Principal and interest are payable in monthly installments of $11,059 and matures on December 1, 2046. At June 30, 2014, the balance outstanding on the mortgage loan was $4,848,177.

Kekuilani also entered into an interest credit and rental assistance agreement in December 1996 with the USDA – RD, which reduces Kekuilani’s principal and interest payments. During the period, Kekuilani realized approximately $256,000 of interest credit reducing the interest expense from approximately $354,000 to $98,000.

In addition, Kekuilani entered into a mortgage agreement in December 1996 in the amount of $696,267 with the Rental Housing Trust Fund. The mortgage loan bears annual interest at 1% and is collateralized by the Kekuilani Gardens Project. Principal and interest are payable in monthly installments of $1,475 and matures on December 5, 2046. At June 30, 2014, the balance outstanding on the mortgage loan was $500,809.

The Dwelling Unit Revolving Fund (“DURF”) also has one mortgage note payable to the USDA – RD. The note was originated in October 1994, and is payable in monthly installments of $1,315, including annual interest at 1%, due in October 2026. The note is collateralized by property and rental receipts. At June 30, 2014, the balance outstanding on the mortgage note was $182,331.

Mortgage and note payable activity during the year was as follows:

	Balance at July 1, 2013	Addition	Reductions	Balance at June 30, 2014	Less Current Portion
Mortgage payable	$ 5,383,399	$ -	$ (34,413)	$ 5,348,986	$ 51,257
Note payable	196,212	-	(13,881)	182,331	13,881
Total	$ 5,579,611	$ -	$ (48,294)	$ 5,531,317	$ 65,138

The approximate debt service requirement of the mortgage and note payable is as follows:

Year ending June 30,	Principal	Interest	Total
2015	$ 65,000	$ 357,000	$ 422,000
2016	68,000	354,000	422,000
2017	72,000	350,000	422,000
2018	75,000	347,000	422,000
2019	79,000	343,000	422,000
2020 – 2024	464,000	1,646,000	2,110,000
2025 – 2029	567,000	1,500,000	2,067,000
2030 – 2034	735,000	1,296,000	2,031,000
2035 – 2039	1,026,000	1,005,000	2,031,000
2040 – 2044	1,441,000	590,000	2,031,000
2045 – 2047	939,000	86,000	1,025,000
	$ 5,531,000	$ 7,874,000	$ 13,405,000

9. Revenue Bonds Payable

Through June 30, 2014, approximately $2.7 billion of revenue bonds have been issued. The revenue bonds are payable from and collateralized by the revenues and other monies and assets of the revenue bond funds and other assets of the Corporation pledged under the indentures.

Revenue bonds payable at June 30, 2014 consist of the following issuances:

Hawaii Rental Housing System revenue bonds	
2004 Series A	
Term bonds maturing in 2015 through 2034 (3.80% to 4.75%)	$ 66,380,000
2004 Series B	
Serial bonds maturing annually through 2030 (4.00% to 6.00%)	13,200,000
Term bonds maturing in 2031 through 2034 (6.50%)	5,590,000
	18,790,000
Total Hawaii Rental Housing System revenue bonds	$ 85,170,000

Single Family Mortgage Purchase revenue bonds	
2005 Series A	
Term bonds maturing in 2027 through 2037 (5.00%)	$ 1,220,000
2005 Series B	
Serial bonds maturing annually through 2016 (3.65% to 3.90%)	330,000
Term bonds maturing in 2016 through 2021 (4.125%)	3,050,000
Planned Amortization Class bonds maturing through 2027 (3.70% to 4.30%)	2,185,000
	5,565,000
2009 Series A-1	
Term bonds maturing in 2026 through 2042 (2.40%)	28,740,000
2011 Series A	
Serial bonds maturing in 2019 (0.06% to 2.90%)	5,525,000
2011 Series B	
Serial bonds maturing in 2020 through 2023 (2.95% to 3.45%)	4,265,000
Term bonds maturing in 2023 through 2026 (3.875%)	4,090,000
Planned Amortization Class bonds maturing in 2015 through 2026 (4.50%)	4,005,000
	12,360,000
2013 Series A	
Term bonds maturing in 2037 (2.60%)	20,119,000
Total Single Family Mortgage Purchase revenue bonds	$ 73,529,000

Multifamily Housing revenue bonds	
2002 Series (Hale Hoaloha Project)	
Mortgage installment bonds maturing annually through 2018 (6.75% until 2012 and 7.75% thereafter)	$ 1,293,786
2005 Series (Kauhale Olu Project)	
Mortgage installment bonds maturing annually through 2026 (6.375%)	4,985,851
2007 Series A (Kukui Gardens Project)	
Mortgage installment bonds maturing annually through 2042 (3.92%)	10,183,047
Mortgage installment bonds maturing in 2042 (6.25%)	3,270,000
2008 Series (Kahului Town Terrace Project)	
Mortgage installment bonds maturing annually through 2026 (4.25%)	1,818,294
2009 Series (Lokahi Kau Project)	
Mortgage installment bonds maturing in 2042 (5.52%)	19,830,000
2011 Series A (Kuhio Park Terrace Project)	
Mortgage installment bonds maturing through 2029 (1.25% to 3.95%)	2,895,000
Term bonds maturing in 2028 through 2029 (4.75% to 4.95%)	29,170,000
2011 Series A (Ewa Villages Apartments)	
Term bonds maturing in 2021 through 2029 (3.95% to 5.10%)	3,630,000
2012 Series A (Ko‘oloa‘ula Apartments)	
Serial bonds maturing in 2023 through 2034 (3.13% to 4.00%)	5,900,000
2012 Series A (Wilikina Apartments)	
Serial bonds maturing in 2022 through 2047 (4.25% to 6.75%)	9,250,000
2012 Series A (Iwilei Apartments)	
Serial bonds maturing in 2017 through 2031 (1.625% to 3.75%)	11,500,000
2012 Series B (Iwilei Apartments)	
Serial bonds maturing in 2015 (7.50%)	15,786,957
2012 Series (Hale Makana Apartments)	
Term bonds maturing in 2015 (7.50%)	6,349,999
2012 Series A (Halekauwila Place)	
Term bonds maturing in 2015 (0.70%)	25,800,000
2012 Series B (Halekauwila Place)	
Term bonds maturing in 2015 (7.50%)	14,095,000
2013 Series (Ewa Villages Apartments II)	
Term bonds maturing in 2015 (2.75%)	12,916,858
Total Multifamily Housing revenue bonds	$ 178,674,792

Interest on the fixed-rate Single Family Mortgage Purchase, Hawaii Rental Housing System, and Multifamily Housing revenue bonds is payable semi-annually.

The Hawaii Rental Housing System revenue bonds with designated maturity dates and the Multifamily Housing revenue bonds may be redeemed at the option of the Corporation commencing in 2005 for the Hawaii Rental Housing System 2004 Series; 2021 for both the Multifamily Housing Ewa Villages Apartments and Kuhio Park Terrace Project 2011 Series A; 2013 for the Multifamily Housing Kuhio Park Terrace Project 2011 Series B; 2022 for the Multifamily Housing Koo‘loa‘ula Apartments Phase I 2012 Series A, Wilikina Apartments 2012 Series A, Iwilei Apartments 2012 Series A; and 2014 for the Multifamily Housing Halekauwila Place 2012 Series A. The revenue bonds may also be redeemed without premium prior to maturity, at the option of the Corporation, as funds become available from undisbursed bond proceeds, principal payments and prepayments of mortgages, excess amounts in the debt service reserve account or excess revenues (as defined in the bond indentures).

During the year ended June 30, 2014, early redemptions totaled $7,540,000.

Revenue bonds activity during the year was as follows:

	Balance at July 1, 2013	Additions	Reductions	Balance at June 30, 2014
Single Family Mortgage Purchase	$ 88,847,000	$ -	$ (15,318,000)	$ 73,529,000
Hawaii Rental Housing System	87,855,000	-	(2,685,000)	85,170,000
Multifamily Housing	214,239,304	48,423,144	(83,987,656)	178,674,792
	390,941,304	48,423,144	(101,990,656)	337,373,792
Add: Unamortized premium	433,434	-	(35,939)	397,495
Total	$ 391,374,738	$ 48,423,144	$ (102,026,595)	337,771,287
Less: Current portion				(6,025,627)
Total				$ 331,745,660

The approximate annual debt service requirements through 2019 and in five-year increments thereafter to maturity for revenue bonds are as follows:

	Principal	Interest	Total
Year ending June 30,			
2015	$ 6,026,000	$ 18,466,000	$ 24,492,000
2016	81,075,000	16,810,000	97,885,000
2017	6,392,000	15,685,000	22,077,000
2018	7,612,000	15,477,000	23,089,000
2019	6,820,000	15,215,000	22,035,000
2020 – 2024	40,398,000	71,444,000	111,842,000
2025 – 2029	58,170,000	58,792,000	116,962,000
2030 – 2034	87,903,000	36,938,000	124,841,000
2035 – 2039	16,487,000	23,767,000	40,254,000
2040 – 2044	24,705,000	8,801,000	33,506,000
2045 – 2047	1,786,000	192,000	1,978,000
	$ 337,374,000	$ 281,587,000	$ 618,961,000

In order to ensure the exclusion of interest on the Corporation’s Hawaii Rental Housing System revenue bonds and Single Family Mortgage Purchase 2009 Series A revenue bonds from gross income for federal income tax purposes, the Corporation calculates rebates due to the U.S. Treasury annually. The rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. At June 30, 2014, the Corporation determined that approximately $120,000 of rebates was due to the U.S. Treasury.

Interest expense of approximately $11,711,000 was included as direct function expenses in the government-wide statement of activities during the year ended June 30, 2014.

10. Conduit Debt Obligations

From time to time, the Corporation has issued revenue bonds to provide financial assistance to private sector entities for the acquisition and rehabilitation of multifamily rental housing developments. These bonds are special limited obligations of the Corporation, payable solely from and collateralized by a pledge of payments on the mortgage-backed securities. Neither the Corporation, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. The bonds and related assets are reported in the accompanying financial statements.

As of June 30, 2014, there were fourteen series of Conduit Revenue Bonds outstanding, with an aggregate principal amount payable of approximately $178,675,000 reported as Multifamily Housing Revenue bonds.

11. Leases

Lessee
The Corporation leases land, buildings and improvements under various noncancelable operating leases expiring at various dates through 2057. The leases have scheduled rent increases at various times throughout their terms.

The minimum rental commitments under operating leases are as follows:

Year ending June 30,	
2015	$ 938,000
2016	953,000
2017	968,000
2018	984,000
2019	1,000,000
2020 – 2024	5,181,000
2025 – 2029	5,459,000
2030 – 2034	4,513,000
2035 – 2039	3,930,000
2040 – 2044	4,367,000
2045 – 2049	4,716,000
2050 – 2054	5,240,000
2055 – 2057	2,096,000
	$ 40,345,000

Rent expense for the year ended June 30, 2014 totaled approximately $947,000.

Lessor
The Corporation leases land with a carrying value of approximately $25,707,000 to various developers and home buyers. The leases expire at various dates through 2085. Lease rental income for the year ended June 30, 2014 was approximately $935,000.

As discussed in Note 13, the Corporation’s lease related to Kukui Gardens was prepaid with a promissory note. The promissory note does not have fixed repayment terms. Accordingly, the minimum amounts to be received are excluded from the following table.

The future minimum lease rent from these operating leases at June 30, 2014 is as follows:

Year ending June 30,	
2015	$ 462,000
2016	496,000
2017	507,000
2018	465,000
2019	468,000
2020 – 2024	2,229,000
2025 – 2029	2,148,000
2030 – 2034	710,000
2035 – 2039	120,000
2040 – 2044	68,000
2045 – 2046	12,000
	$ 7,685,000

12. Commitments and Contingencies

Construction Contracts
At June 30, 2014, the Dwelling Unit Revolving Fund and Housing Finance Revolving Fund had outstanding commitments to expend approximately $51,786,000 for land development and the construction and renovation of housing projects.

Loan Commitments
At June 30, 2014, the Rental Housing Trust Fund had aggregate outstanding loan commitments of approximately $17,655,000.

Development Costs
The Kapolei development project primarily consists of eight residential villages and certain commercial parcels spread over approximately 888 acres of land. As of June 30, 2014, all but remnant residential parcels and 35 acres of business mixed-use land have been developed and sold. The estimated future cost of development is recorded as a liability on the accompanying statement of net position and relates primarily to the completion of certain infrastructure improvements at this project. This liability represents estimated amounts charged to the cost of land sold in excess of costs incurred. Management believes that the future revenues from this project will meet or exceed the net amount of this liability and the remaining costs to be incurred on the project.

Additionally, the Corporation has been in the process of developing two master planned communities on the neighbor islands. The Villages of Leiali‘i is in West Maui and is located on public trust (ceded) land owned by the State of Hawai‘i. During fiscal year 2014, management decided not to pursue the development of Leiali‘i and wrote off approximately $6,386,000 in construction costs and approximately $5,500,000 of payments due to the Office of Hawaiian Affairs as the original obligation was deemed invalid. As of June 30, 2014, the Corporation still has development rights for most of the Leiali‘i project and development costs related to Leiali‘i were approximately $8,400,000 at June 30, 2014.

Development of the Villages of La‘i‘opua master planned community in West Hawai‘i was also delayed due to the ceded land lawsuits. The Corporation subsequently transferred to the Department of Hawaiian Home Lands, all of its master developer rights, title and interest in La‘i‘opua except for approximately 200 acres, of which approximately 57 acres of land is ceded. The Corporation has embarked on the development of another master planned community on non-ceded land in West Hawai‘i, named the Kamakana Villages at Keahuolu.

Also, the Corporation has other development costs and dwelling units of approximately $2,600,000 at June 30, 2014.

Torts and Litigation
The Corporation is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the Corporation's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State of Hawai‘i's general fund.

Insurance
The State maintains certain insurance coverage to satisfy the bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. At June 30, 2014, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The Corporation's portion of the State's workers' compensation liability was not material at June 30, 2014.

13. Kukui Gardens

On December 18, 2007, the Corporation purchased a portion of Kukui Gardens (the "Project"), an affordable housing project in Honolulu, Hawai‘i, for approximately $59,569,000. Concurrent with DURF's purchase of the Project, DURF sold the Project's improvements (including apartment units) and operating cash of approximately $38,527,000 to Kukui EAH/DGI Associates, L.P. ("EAH") (an unrelated third party) for no gain or loss, and leased the underlying land of approximately $21,042,000 to EAH pursuant to the terms of a 65-year land lease that expires on December 18, 2072.

To assist in financing the acquisition and redevelopment of the Project, the State contributed $25,000,000 to DURF during December 2007. Additionally, the Multifamily Housing Revenue Bond Fund issued $45,000,000 of revenue bonds to provide conduit financing to EAH for their acquisition of the Project's improvements and operating cash, as well as to provide capital for rental operations and the planned renovation of the apartment units. Upon completion of the renovations, $34,605,000 of the bonds was scheduled to be redeemed leaving $10,395,000 of permanent bonds outstanding to their stated maturity. In 2010, due to unfavorable global economic conditions, EAH requested and Citicorp Municipal Mortgage Inc., bondholder, agreed to increase the permanent bonds by $3,270,000 to $13,665,000, which decreased the redemption at conversion to $31,335,000 from $34,605,000. In May 2012, the Project was completed and a payment of $31,335,000 was received. Accordingly, the Multifamily Housing Revenue Bond Fund has both notes receivable and revenue bonds payable of approximately $13,453,000 related to the Project on the accompanying statement of net position as of June 30, 2014. Currently, $3,270,000 of the note bears interest at a fixed rate of 6.25% and matures through January 2042, while the remaining

$10,183,000 bears interest at a rate of 3.92% and matures annually through January 2042. The note includes monthly payments of principal and interest with principal payments that range from approximately $2,000 to $41,000. Any unpaid principal and accrued interest, together with any other expenses are due upon maturity.

Additionally, EAH executed three promissory notes to DURF in an aggregate amount of $29,055,000, including approximately $4,055,000 related to cash advanced from DURF to EAH and $25,000,000 related to the terms of the land lease. Additionally, DURF recorded $25,000,000 of unearned income on the accompanying statement of net position related to this transaction. The unearned income will be amortized to rental income on a straight-line basis and the notes receivable will be reduced as cash is collected. Unearned income at June 30, 2014 related to the Project was approximately $22,481,000. The notes bear interest at 4.72% and are for a term of 58 years, with a final maturity date of December 17, 2065. Repayment of the notes is distributed into three periods as follows: (1) December 18, 2007 to December 31, 2012, no payments due; (2) January 1, 2013 to December 31, 2042, beginning April 1, 2013, 85% of the residual cash flow generated by the rental operations of the Project after expenses, as defined; and (3) January 1, 2043 to December 17, 2065, beginning April 1, 2043, 90% of the residual cash flow generated by the rental operations of the Project after expenses, as defined, with any unpaid principal sum and accrued interest together with any other costs, expenses and other charges due to be paid at maturity.

EAH also executed a promissory note to DURF for $26,000,000 in September 2009 to assist EAH in rehabilitating the property. The note bears no interest and is for a term of 56 years, with a final maturity date of December 17, 2065. Repayment of the note is distributed into three periods as follows: (1) September 1, 2009 to December 31, 2012, no payments due; (2) January 1, 2013 to December 31, 2042, beginning April 1, 2013, 85% of the residual cash flow generated by the rental operations of the Project after expenses, as defined; and (3) January 1, 2043 to December 17, 2065, beginning April 1, 2043, 90% of the residual cash flow generated by the rental operations of the Project after expenses, as defined, with any unpaid principal sum and accrued interest together with any other costs, expenses and other charges due to be paid at maturity.

During the year ended June 30, 2014, DURF recognized approximately $1,700,000 of interest income related to the outstanding promissory notes. As of June 30, 2014, DURF has recorded approximately $10,200,000 of interest income receivable related to the outstanding promissory notes.

14. Benefit Plans

Substantially all employees of the Corporation participate in the State’s various employee benefit plans, including the State ERS, post-employment healthcare and life insurance plan, and a deferred compensation plan. For more information on the State’s benefit plans, refer to the State of Hawai‘i and ERS CAFRs. The State’s CAFR can be found at the DAGS website. The ERS CAFR can be found at the ERS website: http://ers.ehawaii.gov/resources/financials.

Employees’ Retirement System
The ERS is a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits and eligibility requirement are established by Chapter 88, HRS, and can be amended by legislative action.

The Corporation’s contributions for fiscal years 2014, 2013 and 2012 of approximately $508,000, $450,000 and $455,000, respectively, were equal to the required contributions for each year.

Post-Retirement Health Care and Life Insurance Benefits
The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund (“EUTF”), an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are based on date of hire. Act 88 established the EUTF during the 2001 legislative session and is codified in Chapter 87A, HRS.

The Corporation contributed approximately $328,000, $299,000 and $236,000, respectively, for fiscal years 2014, 2013 and 2012.

Required Supplementary information and Disclosures
The State’s CAFR includes the required footnote disclosures and supplementary information on the State’s other postemployment benefit plan.

State Policy
The actuarial valuation of the EUTF does not provide other postemployment benefits (“OPEB”) information by department or agency. Accordingly, the State’s policy on the accounting and reporting for OPEB is to allocate a portion of the State’s Annual Required Contribution (“ARC”), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State’s CAFR. Prior to fiscal year 2014, the State allocated annual OPEB cost to component units and proprietary funds based on their proportionate percentage of the State’s total covered payroll expense. Starting in fiscal year 2014, the State changed its allocation methodology to allocate annual OPEB cost to component units and proprietary funds based on their proportionate percentage of the State’s total covered employee headcount. There was no retroactive adjustment to allocated OPEB liabilities as a result of this allocation methodology change.

Allocated OPEB Cost
The following table shows the components of the annual OPEB cost that has been allocated to the Corporation for the year ended June 30, 2014:

Balance at July 1, 2013	$	3,233,717
Additions		776,880
Reductions		(325,953)
Balance at June 30, 2014	$	3,684,644

Deferred Compensation Plan
The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

15. Related Party Transactions

Amounts due from other State of Hawai‘i departments include approximately $505,000 of miscellaneous advances previously made to other departments and approximately $10,543,000 of amounts due from the Department of Hawaiian Home Lands (“DHHL”) related to a previous agreement to transfer certain land development rights to DHHL. Pursuant to this agreement, DHHL was required to commence 15 annual $2,200,000 payments to the Corporation in December 2004. Effective at that time, the Corporation recorded the sale of the land and development rights at the net present value of the estimated future cash flow from DHHL using an imputed interest rate of approximately 3.3%. As of June 30, 2014, amounts due from DHHL include approximately $10,543,000 of principal, net of approximately $957,000 of imputed interest, and approximately $146,000 of accrued interest receivable. Interest income related to imputed interest on payments due from DHHL was approximately $292,000 during the year ended June 30, 2014.

The Rental Assistance Revolving Fund provides rent subsidies to certain lessees of the Corporation’s various projects. Total rent subsidies provided to lessees of the Corporation’s various projects approximated $1,357,000 during the year ended June 30, 2014. These amounts have been recorded by the Corporation as rental income in the Hawaii Rental Housing System Revenue Bond Fund. In addition, the Corporation relocated its offices to the Pohulani building in September 1992. During the year ended June 30, 2014, the Hawaii Rental Housing System Revenue Bond Fund recorded rental income of approximately $1,190,000, which was allocated as office rental expense to various funds of the Corporation. In addition, DAGS incurred approximately $988,000 in rent to the Hawaii Rental Housing System Revenue Bond Fund for leased space in the Pohulani building. The term of the lease with DAGS matures in August 2022 and the minimum annual rental is determined annually by negotiation within a range of 97% to 103% of the previous year’s minimum rent.

16. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2014 is as follows:

Receivable Fund	Payable Fund	Amount
Multifamily Housing Revenue Bond Fund	Other Non-major Enterprise Funds	$ 1,793,919
Other Non-major Enterprise Funds	Other Non-major Enterprise Funds	661,093
Dwelling Unit Revolving Fund	Other Non-major Enterprise Funds	658,939
Other Non-major Enterprise Funds	Hawaii Rental Housing System Revenue Bond Fund	578,005
Other Non-major Enterprise Funds	Single Family Mortgage Purchase Revenue Bond Fund	322,626
Other Non-major Enterprise Funds	Rental Housing Trust Fund	54
	Total Proprietary interfund balances	$ 4,014,636
Other Non-major Enterprise Funds	Neighborhood Stabilization Program Fund	$ 201
Other Non-major Enterprise Funds	Other Non-major Governmental Funds	41,399
	Total Governmental interfund balances	$ 41,600

These balances are due to interfund goods or services provided or reimbursable expenditures and payments between funds.

17. Restatement

Due to the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in fiscal year 2014, the 2013 financial statements were restated. The beginning net position as of July 1, 2013 for the Single Family Mortgage Purchase Revenue Bond Fund was restated by approximately $621,000 from $36,534,000 to $35,914,000. The beginning net position as of July 1, 2013 for the Hawaii Rental Housing System Revenue Bond Fund was restated by approximately $640,000 from $(1,329,000) to $(1,969,000). Additional restatements were as follows:

(in thousands of dollars)

	Business-Type Activities			Total		
	2013 As Previously Reported	Restatement / Reclassification	2013 As Restated / Reclassified	2013 As Previously Reported	Restatement / Reclassification	2013 As Restated / Reclassified
Statement of Net Position						
Current assets	$ 297,035	$ 478	$ 297,513	$ 304,091	$ 478	$ 304,569
Other assets	445,263	(2,252)	443,011	455,124	(2,252)	452,872
Deferred outflows of resources	-	727	727	-	727	727
Total assets and deferred outflows of resources	1,013,887	(1,047)	1,012,840	1,030,873	(1,047)	1,029,826
Current liabilities	140,389	(60,500)	79,889	140,445	(60,500)	79,945
Long-term liabilities	331,149	60,714	391,863	331,149	60,714	391,863
Net position, unrestricted	363,530	(1,261)	362,269	370,530	(1,261)	369,269
Statement of Activities						
Single-family mortgage loan program expense	10,066	(47)	10,019	10,066	(47)	10,019
Rental housing program expense	20,344	(34)	20,310	20,344	(34)	20,310
Change in net position	42,059	81	42,140	15,988	81	16,069
Net position						
Beginning of year	500,290	(1,342)	498,948	543,291	(1,342)	541,949
End of year	542,349	(1,261)	541,088	559,279	(1,261)	558,018

Supplementary Information

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Non-major Governmental Funds
Combining Balance Sheet
June 30, 2014

	Tax Credit Assistance Program Fund	National Foreclosure Mitigation Counseling Program Fund	Emergency Homeowners' Loan Program Fund	Comprehensive Housing Counseling Program	Total Non-major Governmental Funds
Assets					
Equity in cash and cash equivalents and investments in State Treasury	$ -	$ 15,209	$ 4,730	$ -	$ 19,939
Cash in banks	-	-	-	-	-
Notes and loans receivable	9,861,610	-	-	-	9,861,610
Due from other governments	-	97	-	-	97
Total assets	$ 9,861,610	$ 15,306	$ 4,730	$ -	$ 9,881,646
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ -	$ 14,709	$ 4,730	$ -	$ 19,439
Due to other funds	-	597	-	-	597
Total liabilities	-	15,306	4,730	-	20,036
Fund balances – restricted	9,861,610	-	-	-	9,861,610
Total liabilities and fund balances	$ 9,861,610	$ 15,306	$ 4,730	$ -	$ 9,881,646

See accompanying independent auditors' report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Non-major Governmental Funds
Combining Statement of Revenues, Expenditures and Change in Fund Balances
Year Ended June 30, 2014

	Tax Credit Assistance Program Fund	National Foreclosure Mitigation Counseling Program Fund	Emergency Homeowners' Loan Program Fund	Comprehensive Housing Counseling Program	Total Non-major Governmental Funds
Revenues					
Intergovernmental	$ -	$ 103,559	$ 5,226	$ 21,640	$ 130,425
Expenditures					
Programs	-	93,486	5,072	19,476	118,034
Personnel services	-	10,073	-	346	10,419
Administration	-	-	154	1,818	1,972
Total expenditures	-	103,559	5,226	21,640	130,425
Change in fund balances	-	-	-	-	-
Fund balances					
Beginning of year	9,861,610	-	-	-	9,861,610
End of year	$ 9,861,610	$ -	$ -	$ -	$ 9,861,610

See accompanying independent auditors’ report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Non-major Enterprise Funds
Combining Statement of Net Position
June 30, 2014

	University of Hawai‘i Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project Fund	Disbursing Fund	Hamakua Fund	Waialua Fund	Total
Assets									
Current assets									
Equity in cash and cash equivalents and investments in State Treasury	$ -	$ 60,850	$ 20,738,375	$ 5,417,973	$ -	$ 850,685	$ -	$ -	$ 27,067,883
Cash in banks	-	-	-	-	45,619	10,000	-	-	55,619
Receivables									
Accrued interest	-	33	987,251	2,110	-	-	-	-	989,394
Tenant receivables, less allowance for doubtful accounts of $238,997	-	-	-	-	54,936	-	-	-	54,936
Other	-	-	10	2	-	3	-	-	15
	-	33	987,261	2,112	54,936	3	-	-	1,044,345
Due from other funds	-	-	-	1,532,364	-	29,414	-	-	1,561,778
Prepaid expenses and other assets	-	-	147,180	-	-		-	-	147,180
Total current assets	-	60,883	21,872,816	6,952,449	100,555	890,102	-	-	29,876,805
Investments	-	-	6,454,541	-	-	-	-	-	6,454,541
Mortgage loans, net of allowance for loan losses of $10,202	-	-	2,249,985	5,564,265	-	-	-	-	7,814,250
Restricted deposits and funded reserves	-	-	-	-	473,509	-	-	-	473,509
Capital assets, net	-	-	-	-	3,833,602	108,300	-	-	3,941,902
Total assets	$ -	$ 60,883	$ 30,577,342	$ 12,516,714	$ 4,407,666	$ 998,402	$ -	$ -	$ 48,561,007
Liabilities and Net Position									
Current liabilities									
Accounts payable	$ -	$ -	$ -	$ 130	$ 226,068	$ 138,402	$ -	$ -	$ 364,600
Other accrued expenses	-	-	23,097	107,618	7,077	-	-	-	137,792
Due to other funds, net	-	-	-	2,176,828	-	850,000	-	-	3,026,828
Due to other State departments	-	-	-	-	-	10,000	-	-	10,000
Security deposits	-	-	-	1,214,480	36,238	-	-	-	1,250,718
Mortgages payable	-	-	-	-	51,257	-	-	-	51,257
Total current liabilities	-	-	23,097	3,499,056	320,640	998,402	-	-	4,841,195
Mortgages payable	-	-	-	-	5,297,729	-	-	-	5,297,729
Postemployment liability	-	-	55,167	450,567	-	-	-	-	505,734
Total liabilities	-	-	78,264	3,949,623	5,618,369	998,402	-	-	10,644,658
Commitments and contingencies									
Net position									
Net investment in capital assets	-	-	-	-	(1,515,384)	108,300	-	-	(1,407,084)
Restricted by legislation and contractual agreements	-	-	-	-	473,509	-	-	-	473,509
Unrestricted	-	60,883	30,499,078	8,567,091	(168,828)	(108,300)	-	-	38,849,924
Total net position	-	60,883	30,499,078	8,567,091	(1,210,703)	-	-	-	37,916,349
Total liabilities and net position	$ -	$ 60,883	$ 30,577,342	$ 12,516,714	$ 4,407,666	$ 998,402	$ -	$ -	$ 48,561,007

See accompanying independent auditors’ report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Non-major Enterprise Funds
Combining Statement of Revenues, Expenses and Change in Net Position
Year Ended June 30, 2014

	University of Hawai‘i Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project Fund	Disbursing Fund	Hamakua Fund	Waialua Fund	Total
Operating revenues									
Rental	$ -	$ -	$ -	$ 35,016	$ 548,444	$ -	$ -	$ -	$ 583,460
Interest on mortgages, notes, loans and mortgage-backed securities	-	-	68,437	36,537	-	-	-	-	104,974
Other	-	4,990	67	2,050,514	28,872	-	-	1,506	2,085,949
Total operating revenues	-	4,990	68,504	2,122,067	577,316	-	-	1,506	2,774,383
Operating expenses									
Personnel services	-	-	67,101	1,437,389	114,077	-	-	-	1,618,567
Depreciation	-	-	-	-	157,340	-	-	-	157,340
Administration	-	-	68,068	255,551	67,145	-	-	-	390,764
Housing assistance payments	-	-	1,814,569	-	-	-	-	-	1,814,569
Professional services	-	-	5,697	39,121	-	-	-	258	45,076
Insurance	-	-	-	28,710	53,952	-	-	-	82,662
Repairs and maintenance	-	-	1,350	2,983	69,406	-	-	-	73,739
Provision for (recovery of) losses	-	-	-	(140,163)	48,050	-	-	-	(92,113)
Utilities	-	-	-	-	117,992	-	-	-	117,992
Capital expenses	-	-	2,546	29,204	-	-	-	-	31,750
Other	-	-	-	25	-	-	-	-	25
Total operating expenses	-	-	1,959,331	1,652,820	627,962	-	-	258	4,240,371
Operating income (loss)	-	4,990	(1,890,827)	469,247	(50,646)	-	-	1,248	(1,465,988)
Nonoperating revenues (expenses)									
Interest income	-	189	445,240	-	255,801	-	-	-	701,230
Net decrease in fair value of other investments	-	-	(254,953)	-	-	-	-	-	(254,953)
Interest expense	-	-	-	(7,927)	(353,688)	-	-	-	(361,615)
Other expense	-	(4,002)	(1)	(520)	-	-	-	-	(4,523)
Total nonoperating revenues (expenses)	-	(3,813)	190,286	(8,447)	(97,887)	-	-	-	80,139
Income (loss) before transfers	-	1,177	(1,700,541)	460,800	(148,533)	-	-	1,248	(1,385,849)
Transfers in (out)	(1,003)	-	-	4,699,373	-	-	-	-	4,698,370
Change in net position	(1,003)	1,177	(1,700,541)	5,160,173	(148,533)	-	-	1,248	3,312,521
Net position									
Beginning of year	1,003	59,706	32,199,619	3,406,918	(1,062,170)	-	-	(1,248)	34,603,828
End of year	$ -	$ 60,883	$ 30,499,078	$ 8,567,091	$ (1,210,703)	$ -	$ -	$ -	$ 37,916,349

See accompanying independent auditors’ report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Non-major Enterprise Funds
Combining Statement of Cash Flows
Year Ended June 30, 2014

	University of Hawai‘i Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project Fund	Disbursing Fund	Hamakua Fund	Waialua Fund	Total
Cash flows from operating activities									
Cash received from (paid to) tenants	$ -	$ (5,717)	$ -	$ 221,385	$ 507,534	$ -	$ -	$ 1,506	$ 724,708
Cash received from borrowers									
Principal repayments	-	-	-	74,723	-	-	-	(1,314)	73,409
Interest income	-	(21)	8,118	42,234	-	-	1,851	1,314	53,496
Cash payments for issuance of loans receivable	-	-	-	(4,698,370)	-	-	-	-	(4,698,370)
Payments to employees	-	-	(67,101)	(1,437,389)	(114,077)	-	-	-	(1,618,567)
Payments to suppliers	-	(4,992)	(1,897,155)	(263,281)	(337,713)	(1)	-	(258)	(2,503,400)
Cash receipts from (payments to) other funds	-	-	3,634	488,489	-	(4,996)	(1,851)	(2,036)	483,240
Other cash receipts	-	4,990	67	2,050,489	28,872	3,256	-	-	2,087,674
Net cash provided by (used in) operating activities	-	(5,740)	(1,952,437)	(3,521,720)	84,616	(1,741)	-	(788)	(5,397,810)
Cash flows from noncapital financing activities									
Transfers in (out)	(1,003)	-	-	4,698,370	-	-	-	-	4,697,367
Net cash used in noncapital financing activities	(1,003)	-	-	4,698,370	-	-	-	-	4,697,367
Cash flows from capital and related financing activities									
Principal paid on mortgage loans	-	-	-	-	(34,413)	-	-	-	(34,413)
Purchase of capital assets	-	-	-	-	-	(24,633)	-	-	(24,633)
Interest payments	-	-	-	-	(100,659)	-	-	-	(100,659)
Net cash used in capital and related financing activities	-	-	-	-	(135,072)	(24,633)	-	-	(159,705)
Cash flows from investing activities									
Interest received (paid)	-	191	445,239	(7,446)	-	-	-	-	437,984
Net cash provided by (used in) investing activities	-	191	445,239	(7,446)	-	-	-	-	437,984
Net increase (decrease) in cash and cash equivalents	(1,003)	(5,549)	(1,507,198)	1,169,204	(50,456)	(26,374)	-	(788)	(422,164)
Cash and cash equivalents									
Beginning of year	1,003	66,399	22,245,573	4,248,769	569,584	887,059	-	788	28,019,175
End of year	$ -	$ 60,850	$ 20,738,375	$ 5,417,973	$ 519,128	$ 860,685	$ -	$ -	$ 27,597,011

See accompanying independent auditors’ report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Non-major Enterprise Funds
Combining Statement of Cash Flows
Year Ended June 30, 2014

	University of Hawai‘i Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project Fund	Disbursing Fund	Hamakua Fund	Waialua Fund	Total
Components of cash and cash equivalents									
Equity in cash and cash equivalents and investments in State Treasury	$ -	$ 60,850	$ 20,738,375	$ 5,417,973	$ -	$ 850,685	$ -	$ -	$ 27,067,883
Cash in banks	-	-	-	-	45,619	10,000	-	-	55,619
Restricted deposits and funded reserves	-	-	-	-	473,509	-	-	-	473,509
Cash and cash equivalents	$ -	$ 60,850	$ 20,738,375	$ 5,417,973	$ 519,128	$ 860,685	$ -	$ -	$ 27,597,011
Cash flows from operating activities									
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities									
Operating income (loss)	$ -	$ 4,990	$ (1,890,827)	$ 469,247	$ (50,646)	$ -	$ -	$ 1,248	$ (1,465,988)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities									
Depreciation	-	-	-	-	157,340	-	-	-	157,340
Provision for (recovery of) losses	-	-	-	(140,163)	48,050	-	-	-	(92,113)
Changes in assets and liabilities									
Mortgage loans receivable	-	-	-	(4,623,647)	-	-	-	-	(4,623,647)
Accrued interest receivable	-	(21)	(60,319)	5,697	-	-	1,851	-	(52,792)
Tenant receivables	-	-	-	-	(34,579)	-	-	-	(34,579)
Other receivables	-	-	-	-	2,075	-	-	-	2,075
Due from other funds	-	-	-	157,150	-	(4,996)	-	-	152,154
Prepaid expenses and other assets	-	-	(8,666)	-	-	-	-	-	(8,666)
Accounts payable	-	(4,992)	-	(695)	(29,218)	3,256	-	-	(31,649)
Other accrued expenses	-	-	3,741	92,983	-	(1)	-	-	96,723
Due to other funds	-	-	3,634	331,339	-	-	(1,851)	(2,036)	331,086
Security deposits	-	(5,717)	-	186,369	(8,406)	-	-	-	172,246
Net cash provided by (used in) operating activities	$ -	$ (5,740)	$ (1,952,437)	$ (3,521,720)	$ 84,616	$ (1,741)	$ -	$ (788)	$ (5,397,810)

See accompanying independent auditors’ report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Reconciliation of Cash and Short-Term Investments
June 30, 2014

The Corporation’s cash and short-term investments consist of the following as of June 30, 2014:

Equity in State Treasury investment pool – Government-wide	$ 173,829,212
Cash in banks	2,645,835
Cash and cash equivalents held by trustees	67,536,395
Deposits held in trust	25,130
Restricted deposits and funded reserves	473,509
	$ 244,510,081

Total cash and short-term investments are in agreement with the State Comptroller’s central accounting records as of June 30, 2014, as reconciled below:

	Appropriation Symbol	Balance at June 30, 2014
Cash in State Treasury		
Special Funds	S-14-213-B	$ 14,586
	S-14-503-B	123
	S-14-206-B	4,730
	S-14-320-B	27,266
	S-11-375-B	777,206
	S-08-375-B	24,059
	S-09-375-B	84,797
	S-10-375-B	14,246
	S-12-375-B	175,107
	S-13-375-B	1,005,731
	S-14-375-B	65,146,363
	S-14-374-B	60,850
	S-12-376-B	48,250
	S-13-376-B	49,764
	S-14-376-B	5,307,578
	S-14-378-B	20,739,002
	S-14-314-B	500,000
Trust Funds	T-14-930-B	79,037,672
Total cash held in State Treasury, as reported by State Comptroller’s accounting records		$ 173,017,330

See accompanying independent auditors’ report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Reconciliation of Cash and Short-Term Investments
June 30, 2014

	Balance at June 30, 2014
Reconciling items	
Journal vouchers not recorded by DAGS	$ 805,365
Other	6,517
	$ 811,882
Cash and short-term investments held outside State Treasury	
Cash in bank	$ 2,645,835
Cash held by trustees	67,536,395
Deposits held in trust	25,130
Restricted deposits and funded reserves	473,509
	70,680,869
Cash and short-term investments on Statement of Net Assets	$ 244,510,081

See accompanying independent auditors’ report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii – Neighborhood Stabilization Program	14.228	$ 166,860
HOME Investment Partnership Program	14.239	5,031,014
Emergency Homeowners' Loan Program	14.323	5,226
Comprehensive Housing Counseling Program	14.169	21,640
U.S. Department of Treasury		
Passed through The Neighborhood Reinvestment Corporation – National Foreclosure Mitigation Counseling	21.000	103,559
Total federal expenditures		$ 5,328,299

See accompanying independent auditors' report and notes to the schedule of expenditures of federal awards.

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, the Corporation provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii – Neighborhood Stabilization Program	14.228	$ 132,367
HOME Investment Partnership Program	14.239	4,907,492
Emergency Homeowners' Loan Program	14.323	5,072
Comprehensive Housing Counseling Program	14.169	19,476
U.S. Department of Treasury		
National Foreclosure Mitigation Counseling	21.000	93,486
Total federal expenditures		$ 5,157,893

3. Loans Outstanding

The Corporation had $9,861,610 of loan balances outstanding and advances awarded as of and for the year ended June 30, 2014.

PART II
Compliance and Internal Control

ACcuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Auditor
State of Hawai‘i

The Board of Directors
Hawaii Housing Finance and Development Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of Hawai‘i, Hawaii Housing Finance and Development Corporation (the “Corporation”) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Corporation’s basic financial statements, and have issued our report thereon dated November 19, 2014.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Corporation’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

an independent member of
BAKER TILLY
INTERNATIONAL

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Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Corporation's Response to Findings
The Corporation's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Corporation's response was not subject to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
November 19, 2014

Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

The Auditor
State of Hawai‘i

The Board of Directors
Hawaii Housing Finance and Development Corporation

Report on Compliance for Each Major Federal Program
We have audited the State of Hawai‘i, Hawaii Housing Finance and Development Corporation's (the "Corporation") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2014. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program
In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

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Report on Internal Control over Compliance
Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
November 19, 2014

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	__ Yes	√ No
• Significant deficiency(ies) identified?	__ Yes	√ None reported
Noncompliance material to financial statements noted?	__ Yes	√ No

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	__ Yes	√ No
• Significant deficiency(ies) identified?	__ Yes	√ None reported
Type of auditors’ report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	__ Yes	√ No
Identification of major programs:		

CFDA Number	Name of Federal Program
14.239	HUD – Home Investment Partnership Program

Dollar threshold used to distinguish between type A and type B programs:	$300,000	
Auditee qualified as low-risk auditee?	√ Yes	__ No

Section II – Financial Statement Findings

No current year financial statement findings.

Section III – Federal Award Findings and Questioned Costs

No current year federal award findings and questioned costs.

Section IV – Summary Schedule of Prior Audit Findings

The following is the status of the prior year findings.

Financial Statement Finding

Finding Nos. 2010-01 and 2009-01: Financial Reporting (Significant Deficiency)

As of June 30, 2010, the Corporation reported a liability for estimated future costs of development of $35.5 million. This liability represented the Corporation's estimate of the costs to complete its development projects, primarily consisting of the Kapolei master development. As of June 30, 2010, the Corporation also reported a $23.2 million balance for inventories of development in progress, $19.9 million of which related to its Leiali‘i development on Maui. The estimates were material to the Corporation's and Dwelling Unit Revolving Fund's ("DURF") financial statements, and therefore, represented significant estimates. However, although an analysis was performed by management to determine the estimated future costs of development as of June 30, 2010, we noted the analysis used stale-dated information, such as a February 2007 appraisal for various lots in the Kapolei project, and could not be presented in an easily understandable manner. We also noted management did not perform an analysis of the realizability of the Leiali‘i project inventory balance as of June 30, 2010.

Management indicated stale-dated information was used in the analysis performed for the estimated future costs of development and an updated analysis was not performed of the realizability of the Leiali‘i inventory balance because final decisions have not been made on how the Kapolei and Leiali‘i developments will proceed. Consequently, management was unable to utilize solid assumptions in determining the estimated balances, and management believed the cost of obtaining updated appraisals of the value of the land being developed outweighed the benefit of having current appraisals.

As the Corporation hired a fiscal manager at the end of fiscal year 2010 with the ability to perform analyses of significant estimates reported in the Corporation's financial statements, we recommended that the Corporation's management perform a complete and current analyses as of each year end to support significant estimates reported, including the estimated future costs of development liability and realizability of the Leiali‘i development project. The documentation of the analyses should include management's assumptions of the expected future development plans for the projects, conclusions or best available estimates, ranges of estimation and all relevant supporting information.

Status
In the current year, management performed an analysis for the estimated future costs of development of the Kapolei master development. Management used original cost figures and adjusted for current construction cost inflation rates to approximate the current costs reasonably expected to be required to complete the project. Management also plans to use an external consultant to perform an analysis for estimated actual costs to complete the project in the next several years.

Additionally, in the current year management decided not to pursue development of the Leiali'i project and wrote off approximately $11.96 million of previously capitalized construction costs and payables. As management does not have any plans to resume development of the Leiali'i project, a realizability analysis is no longer necessary.

Based on the actions taken by management in the current year, this finding is no longer deemed to be a significant deficiency. This finding will not be carried forward next year.

NEIL ABERCROMBIE
GOVERNOR

CRAIG K. HIRAI
EXECUTIVE DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
677 QUEEN STREET, SUITE 300
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IN REPLY PLEASE REFER TO:
14:FMO/255

November 19, 2014

Jan K. Yamane
Acting State Auditor
Office of the State Auditor
Kekuanaoa Building
465 S. King Street, Room 500
Honolulu, Hawaii 96817-2917

Dear Ms. Yamane:

SUBJECT: Single Audit Report for the Fiscal Year Ended June 30, 2014
Auditor's Findings and Recommendations

Enclosed is the response to the recommendations included in Accuity LLP's single audit report of the Hawaii Housing Finance and Development Corporation for the fiscal year ended June 30, 2014. The response includes actions taken or contemplated, anticipated completion dates, and HHFDC personnel responsible for the corrective action.

Sincerely,

Ann T. Nakagawa
Chief Financial Officer

cc: Accuity, LLP

PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Finding Nos. 2010-01 and 2009-01: Financial Reporting

Audit Recommendation:
The auditors recommended that the Corporation's management perform a complete and current analyses as of each year end to support significant estimates reported, including the estimated future costs of development liability (of the Kapolei master development) and realizability of the Leali'i development project. The documentation of the analyses should include management's assumptions of the expected future development plans for the projects, conclusions or best available estimates, ranges of estimation and all relevant supporting information.

Management's Comment:

1. Kapolei Master Development
    a. Management performed an analysis of the estimated future costs of the Kapolei master development. Management used original cost figures and adjusted these figures for current construction cost inflation rates to approximate the current costs reasonably expected to be required to complete the project. Management is also using an external consultant to determine estimated actual costs to bring the Kapolei infrastructure to the standards acceptable for the Corporation to dedicate the infrastructure to the City and County of Honolulu.
    b. Management will continue to update the original cost figures with the latest construction costs inflation rates available each year.

2. Leali'i Project
    a. Management has decided not to pursue development of the Leali'i project and wrote off approximately $11.96 million of previously capitalized construction costs and payables during the current fiscal year.
    b. Management will pursue transfer of the property to other State agencies and the County of Maui and continue to evaluate the recoverability of the remaining land costs.

Contact Person(s): Craig K. Hirai, Executive Director
Ann T. Nakagawa, Chief Financial Officer